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Now Your Company

MANULIFE FINANCIAL CORPORATION

ANNUAL REPORT 1999



Manulife Financial

Corporate Citizenship

Being a good corporate citizen is an integral part of Manulife's overall vision of being the most professional life insurance company in the world. Our citizenship program is fulfilled through partnerships that involve donations, sponsorships, and support of volunteer activities of our employees and distribution partners.

Manulife Financial's citizenship program reflects the varied cultures and needs of the territories in which we operate. We support charitable and non-profit organizations throughout Canada, the United States and Asia.

With the volunteer commitment of our people and a strategic investment of our citizenship dollars, we look forward to helping improve the quality of life enjoyed in the many countries where we do business.

Now Your Company

Manulife Financial is a leading Canadian-based financial services company operating in 15 countries and territories worldwide. Through its 28,000 employees and agents, together with a network of distribution partners, Manulife Financial offers clients a diverse range of financial protection products and wealth management services. Funds under management by Manulife Financial (Manulife Financial Corporation and its affiliated companies) were in excess of Cdn\$112 billion as of December 31, 1999.

Manulife Financial Corporation trades as 'MFC' on the TSE, NYSE and PSE, and under '945' on the SEHK. Manulife Financial can be found on the Internet at www.manulife.com.

Countries and Territories of Business

Manulife Financial operates directly and through its subsidiaries in Canada, the United States, the People's Republic of China (including the territories of Hong Kong and Macao), Japan, the Philippines, Indonesia, Singapore, Taiwan, Vietnam, the United Kingdom, Germany, Bermuda and Barbados.

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Diversity

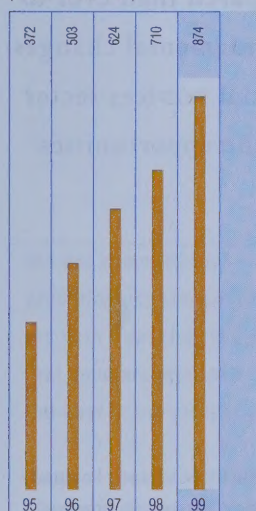
Manulife Financial is dedicated to bias-free employee practices and to the attraction and retention of employees with diverse backgrounds which reflect the many communities and markets we serve throughout the world.

♻️ Printed in Canada on environmentally friendly paper. Please recycle.

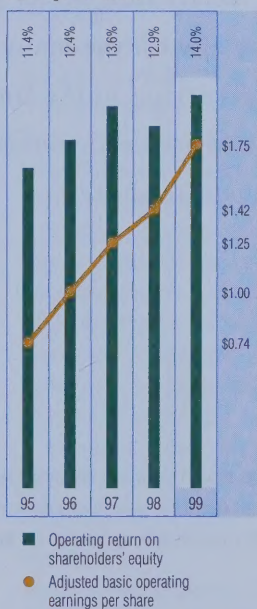
Ce rapport annuel de la Financière Manuvie est aussi disponible en français.

Key Performance Measures

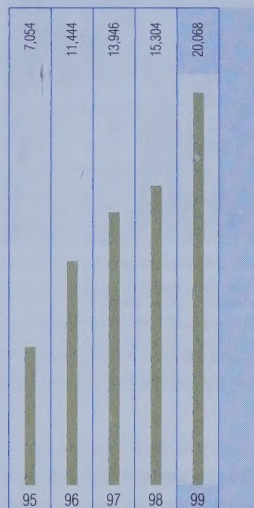
Adjusted Shareholders' Net Operating Income
(Canadian \$ in millions)



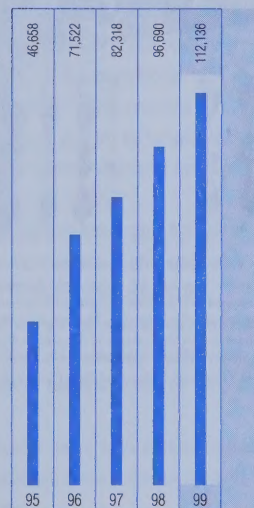
Operating Return on Shareholders' Equity and Adjusted Basic Operating Earnings Per Share



Premiums and Deposits
(Canadian \$ in millions)



Funds under Management
(Canadian \$ in millions)



Ratings

The following rating agencies each assign Manulife Financial ratings within their highest range of categories, thereby recognizing the Company as among the strongest in the life insurance industry.

Purpose	Rating agency	Rating
Claims paying/financial strength	A.M. Best	A++ (1st of 16 categories)
	Dominion Bond Rating Service	IC-1 (1st of 5 categories)
	Duff & Phelps	AAA (1st of 19 categories)
	Moody's	Aa2 (3rd of 21 categories)
	Standard & Poor's	AA+ (2nd of 21 categories)
Commercial paper	Dominion Bond Rating Service	R-1 (mid)
	Moody's	Prime-1
	Standard & Poor's	A-1+
Subordinated debt	Duff & Phelps	AA
	Moody's	A1
	Standard & Poor's	AA-

President's Message



Manulife Financial Corporation opens trading at the New York Stock Exchange. Pictured here from left to right: John Richardson, Senior Executive Vice President; Raymond G. Schortemeier, Managing Director, International Listings, NYSE; Donald Guloien, Executive Vice President, Business Development; William R. Johnston, President, NYSE; Dominic D'Alessandro, President and Chief Executive Officer; Arthur Sawchuk, Chairman of the Board; Peter Rubenovitch, Executive Vice President and Chief Financial Officer; and Felix Chee, Executive Vice President and Chief Investment Officer.

It was another remarkable year for Manulife Financial as revenues and earnings were again at record levels. Of the many important events that occurred during the year, the most significant was our successful demutualization and conversion to public company status. We are now better prepared than ever to deal with the many fundamental changes occurring in the financial services sector and are excited about the opportunities that lie ahead.

This was the sixth consecutive year in which all key measures of financial performance reached historic levels.

Our objective is simple: we want to build the finest, most professional life insurance company in the world. In this, our first annual report to you as a public company, we explain how well we are executing our strategy and why we are optimistic for our future.

Demutualization

In September 1999, the Company became a public company and successfully listed its shares on the Toronto, New York, Hong Kong and Philippines stock exchanges. The event concluded the long demutualization exercise, which was one of the most complex projects in our 113-year history.

The Company's surplus was allocated to 675,000 eligible policyholders who had the option of receiving either cash or shares for their entitlement. To accommodate those choosing cash, it was necessary to undertake the largest initial public offering in Canadian history. The entire \$2.5 billion of proceeds raised in the IPO were used to fund policyholder payments; MFC is extremely well capitalized and has no current need for additional capital. The market value of the equity outstanding at year-end of \$9.1 billion represents the largest capitalization of any life insurer in Canada.

We are especially proud that, at an initial listing price of \$18 per share, we were able to deliver to our eligible policyholders one of the highest premiums to book value realized in any demutualization in the world. Since the IPO date, the shareholder base has been rationalized somewhat and at year-end we had approximately 450,000 shareholders.

Performance

Consolidated revenues for the year as measured by premiums and deposits rose to \$20.1 billion, an increase of \$4.8 billion or 31 per cent from the prior year. Net income to shareholders of \$874 million was up by 23 per cent from the \$710 million of a year ago. On a per share basis, earnings were \$1.75 compared to \$1.42 in 1998. Return on shareholders' equity stood at 14 per cent, up from 12.9 per cent in 1998. This was the sixth consecutive year in which all key measures of financial performance reached historic levels. All operating divisions contributed to the strong results.

United States

The U.S. Division had another great year in 1999 as all three of our businesses there – Individual Life Insurance, Pensions and Variable Annuities – experienced double digit rates of growth.

The Individual Life Insurance business, whose core activity is providing estate-planning services to wealthy Americans, grew even faster than the segment of the population that it serves. The year-over-year increase in new first year premiums was a very impressive 36 per cent. With an aging population and an estimated \$12 trillion in wealth to be passed on to Americans aged 35 to 53 through inheritances in the next 20 years, demand for our products is expected to remain strong for the foreseeable future.

Our Pension operation in the U.S. is focused on providing investment management services and administration to the medium and small 401(k) market. Employers in this category will typically make available a defined contribution pension plan to their employees and outsource most of the support services required. Because of the very high quality of service and range of investment options offered, MFC has established itself as a leader in this fast growing market segment. The Pension operation had an increase in sales in 1999 of 40 per cent over the prior year.

Variable Annuities, our third U.S. business also had a spectacular year, with sales increasing by 42 per cent from 1998. A number of new features and products were introduced and an already strong distribution network was expanded during the year.

Canada

The Canadian Division turned in a strong performance in the face of generally difficult market conditions. Each of the operating units, Individual Life, Wealth Management, Group Benefits and Affinity Markets, undertook important initiatives that significantly improved their competitive positions.

In Individual Life, a major restructuring of the distribution system was undertaken that will expand our distribution capability and noticeably reduce costs in the periods ahead. As well, we announced the extension of our successful preferred underwriting from term insurance to universal life products. First year premiums for this unit were up 24 per cent over a year ago.

Wealth Management is a newly formed operation, which brings together individual savings and retirement services, Manulife Bank, and the mutual fund operations of Elliott & Page under common management. As a result of slow growth in the market as a whole, revenues for this unit were flat compared with a year ago. Group pensions' launch of 10 new asset allocation funds was a first for the Canadian life insurance industry.

Group Benefits had a good year as an important inforce disability block was acquired and overall claims experience was favourable. Progress was also made in the quality of service provided to customers.

We are committed to providing our shareholders with financial returns that compare well with the best in our industry.



Dominic D'Alessandro, President and Chief Executive Officer, Manulife Financial, opens the market at the Toronto Stock Exchange for the first day of trading of MFC, September 24, 1999.



Manulife Financial Corporation and NYSE executives celebrate the opening bell at the New York Stock Exchange, October 21, 1999.

The Affinity unit had an outstanding year, as it was able to establish important new relationships, which should lead to quite significant growth in revenues in the coming year.

Asia

The Asian Division had a much improved year in 1999 as revenues and net income were up a very impressive 67 per cent and 74 per cent respectively over the previous year. This growth is only partially a reflection of the improved economic conditions in the region; mainly, it is due to the significant expansion of MFC's presence there.

In April 1999, we began operating in Japan and in August we became the first foreign life insurer to be licensed in Vietnam. Our three-year-old operation in Shanghai also grew nicely and is poised to expand to other parts of China. Hong Kong is by far the most significant of our businesses in Asia and it too had a very good year. In 2000, it is focused on the launch of the Mandatory Provident Fund, which presents an opportunity to add significantly to our business in that territory. Indonesia, the Philippines and Singapore all experienced good growth. Conditions in Korea remained difficult and the one-half interest in our small joint venture there was sold to our local partner.

We are enthusiastic about our growth prospects in Asia where we have been present for more than a century. We have prepared ourselves to participate in what undoubtedly will be some of the fastest growing and most exciting life insurance markets in the world.

Reinsurance

The performance of the Reinsurance Division was also much improved in 1999 as net income more than tripled from the depressed level of a year ago. The division engages in three activities, of which Life Retrocession is by far the most important; MFC is the clear North American market leader in this business, in which we provide life reinsurance to other reinsurers. This product line had a strong year as revenues rose and claims experience was highly favourable. Accident and Health had another difficult year although much less so than a year ago; the measures taken to severely curtail participation in this activity had the expected effect. Financial Reinsurance activity was satisfactory.

Building Value

As the summary above shows, MFC is well positioned to continue to grow. This growth will come about through the organic expansion of each of our various divisions. It will also come as a result of opportunities that will inevitably present themselves to acquire other insurers. We all know that financial services is one of the most competitive sectors on earth and that the industry is rapidly consolidating. Size will increasingly be a factor in determining an organization's viability. However, it is imperative that profitability not be compromised in the pursuit of size.

Capabilities essential
to our future success
such as innovation,
distribution excellence
and quality service are
alive and well at our
fine Company.



Victor Apps, Manulife's Executive Vice President and General Manager, Asia, presents a souvenir to Mr. H. C. Lee, Chairman of the Stock Exchange of Hong Kong, September 27, 1999.



Ato Vergel de Dios, President, Manulife Philippines, addresses members of the trading floor at the Philippine Stock Exchange, September 27, 1999.



William R.C. Blundell

I would like to take this opportunity to thank Bill Blundell who retired from the Board in 1999, for his outstanding service to our Company over the past nine years. Bill, who served as interim CEO in 1993 and then took on the role of Chairman of the Board, also acted as Chairman of the Special Committee on Demutualization. We owe much of our success to his wise counsel and leadership. We will miss him very much.

We believe that it is only through generating superior returns for our owners that we will be able to achieve our vision of creating the most professional life insurance company in the world. Accordingly, we are committed to providing our shareholders with financial returns that compare well with the best in our industry.

Our near term financial goals are to earn a return on equity of 15 per cent and to grow earnings per share by 15 per cent per year. It is against these benchmarks that investment opportunities will be measured. These objectives and MFC's very strong capital position are the reasons why we repurchased 6.9 million shares to year-end under a previously announced normal course issuer bid. Another initiative to further enhance shareholder returns was the declaration on February 17, 2000 of our first quarterly common share dividend of \$0.10 per share.

People

It goes without saying that behind every successful organization are dedicated and talented people. In Manulife's case this was especially apparent in 1999 when, notwithstanding the enormous distraction entailed by demutualization, the Company was able to successfully deal with the Y2K systems issue, improve its capacity to serve new and existing customers, and to extend its operations to important new markets. That revenue levels have increased so noticeably in the year is further evidence that capabilities essential to our future success such as innovation, distribution excellence and quality service are alive and well at our fine company.

Finally, I am pleased to report that the quality of our invested assets has never been higher and our investment performance has been excellent. This too is an indication that our investment and risk management disciplines continue to serve us well.

To the thousands of Manulife employees and agents around the world who worked so hard to make 1999 such a memorable year, thank you. It is because of you that I am optimistic for our future.

Dominic D'Alessandro
President and Chief Executive Officer

Now Your Company: Manulife at a Glance

UNITED STATES

Line of Business	Market Focus	Market Ranking	Distribution
PENSIONS	Group annuity contracts designed for small and medium-sized companies with a particular emphasis on 401(k) plans	Ranked second in small plan market, based on number of new or transfer plans	Third party administrators (TPAs), broker/dealer firms, life insurance brokers and financial planners – 4,900 producers, including 1,000 TPAs
ANNUITIES	Variable and fixed-rate annuity products for affluent individuals	Among the top six in target market in new deposits	Broker/dealer firms, financial planners and banks – 52,000 licensed individuals
INDIVIDUAL LIFE INSURANCE	Universal life, variable universal life, participating whole life and term insurance for both single life and survivorship (second-to-die) applications in customized financial and estate planning solutions for high net worth individuals and the business insurance market (COLI)	Among the leaders in average face amount of new life insurance, currently at US\$1.1 million	Independent agents, broker/dealer firms, financial planners, producer groups and banks – 35,000 licensed individuals

CANADA

Line of Business	Market Focus	Market Ranking	Distribution
INDIVIDUAL LIFE INSURANCE	Universal life, term life and participating whole life insurance products for middle and upper income individuals, families and business owners	Ranked second based on new premiums	9,000 independent producers and more than 4,300 stockbrokers
WEALTH MANAGEMENT	Fixed and variable rate annuities for middle and upper income individuals	Ranked second based on total premiums; ranked fourth in segregated fund based annuities	9,000 independent producers and more than 4,300 stockbrokers
	Bank accounts, GICs, lines of credit and loans, and Manulife ONE accounts for individuals, families and businesses through Manulife Bank	The first bank owned by a life insurer to become a card-issuing member of Interac Association	9,000 independent producers, deposit brokers and direct to client via mail, telephone and the Internet
	Group pension products, including group RRSPs, pension plans, deferred profit-sharing plans and non-registered savings plans for medium and large-size groups	A leading provider of defined contribution pension plans	Salaried pension specialists in conjunction with independent advisors
GROUP BENEFITS	Group life and disability insurance, private health and hospital insurance, drug and dental plan insurance and AD & D insurance for small, medium and large-sized groups	Ranked third based on premiums and premium equivalents	Salaried employee benefits specialists and 300 independent producers
AFFINITY MARKETS	Life, health, travel, accident, disability and job-loss insurance for individuals affiliated with an alumni, professional or retiree association, retailer or financial institution	The leading provider of life and health insurance to alumni associations and among the top five providers to associations, retailers and financial institutions	Direct marketing via mail, telephone and the Internet

REINSURANCE

Line of Business	Market Focus	Market Ranking	Distribution
LIFE AND FINANCIAL REINSURANCE	Retrocession	Largest life retrocessionaire in North America	Company to company
PROPERTY AND CASUALTY REINSURANCE	Retrocession	Niche market	Company to company; professional reinsurance brokers
ACCIDENT AND HEALTH REINSURANCE	Reinsurance	Selective participant	Professional reinsurance brokers; company to company

ASIA

Market	Market Focus	Market Ranking	Distribution
HONG KONG	Individual life and health, whole life, term and endowment insurance, and mutual funds for middle and upper income individuals Group life, health and term insurance, major medical and outpatient plans and disability products for small and medium-sized organizations Defined contribution pension plans for small and medium-sized organizations	Ranked third based on new premiums with 11.6% share Among the top five based on total premiums Ranked second in new premiums with 22% share	2,300 Manulife agents supported by company staff and brokers
INDONESIA	Individual life insurance and mutual funds for upper income individuals Pension plans and group life and health insurance for medium-sized organizations	Ranked fourth in total life insurance premiums with 6.8% share; ranked third in mutual funds with 15% share Ranked fifth in group life and health insurance premiums with 4.5% share	1,800 Manulife agents supported by company staff and brokers
PHILIPPINES	Individual life insurance for middle and upper income individuals Group life insurance for small and medium-sized organizations	Ranked fourth in total premiums with 4.8% share	400 Manulife agents supported by company staff and brokers
SHANGHAI, CHINA	Term, non-participating whole life and endowment insurance and annuities for middle and upper income individuals	Second foreign insurer licensed in China; commenced operations November 1996	1,300 Manulife agents supported by company staff
JAPAN	Individual life and health insurance and annuities for middle and upper income individuals and small business owners Group life and health insurance for small and medium-sized businesses	First direct Canadian insurance investment in Japan; commenced operations April 1999	5,300 Manulife sales representatives, 2,400 independent brokers/tax accountants and 170 Manulife financial consultants
SINGAPORE, TAIWAN, MACAO, VIETNAM	Individual life and health insurance for middle and upper income individuals Group life and health insurance for employers (Singapore and Taiwan)	Niche markets	600 Manulife agents supported by company staff and brokers Bancassurance (Singapore)

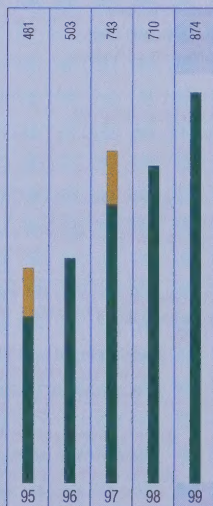
INVESTMENTS

Market Focus	Business Operation	Asset Classes	Market Ranking
ASSET ORIGINATION Create assets to enhance return and provide a competitive advantage to Manulife	Mortgage Operations Real Estate Operations Manulife Capital	Mortgage loans Real estate Non-traditional assets – including private equity and debt, and oil and gas investments	Ranked third among commercial mortgage lenders in Canada One of the largest Canadian direct owners and managers of real estate, ranked by assets and square footage
ASSET SELECTION Select and manage assets others have created	Securities Operations Elliott & Page Seamark Asset Management Manulife International Investment Management	Cash and short-term investments Bonds Stocks	A significant player in the Canadian corporate bond market

Management's Discussion & Analysis

Adjusted Shareholders' Net Income

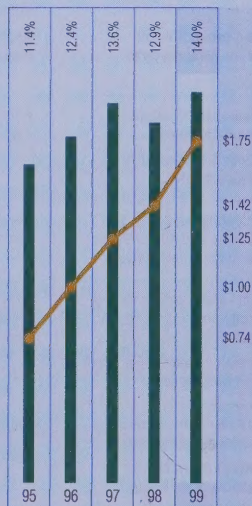
(Canadian \$ in millions)



■ Gain on divestiture
■ Adjusted shareholders' net operating income

- 23% growth in adjusted shareholders' net income to \$874 million
- Sixth consecutive year of record net adjusted shareholders' operating income

Operating Return on Shareholders' Equity and Adjusted Basic Operating Earnings Per Share

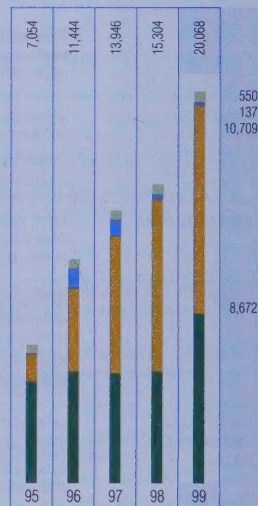


■ Operating return on shareholders' equity
● Adjusted basic operating earnings per share

- Operating return on shareholders' equity of 14.0% and adjusted basic operating earnings per share of \$1.75
- 23% growth in adjusted basic operating earnings per share

Premiums and Deposits

(Canadian \$ in millions)

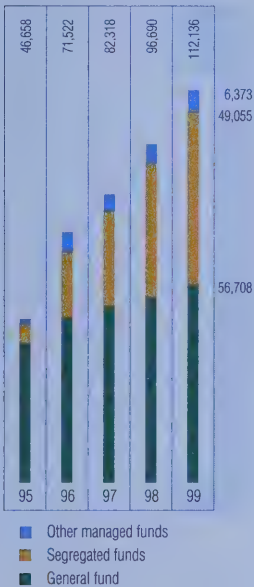


■ ASO premium equivalents
■ Mutual funds
■ Segregated funds
■ General fund

- 52% increase in general fund premiums
- 21% increase in segregated fund deposits

Funds under Management

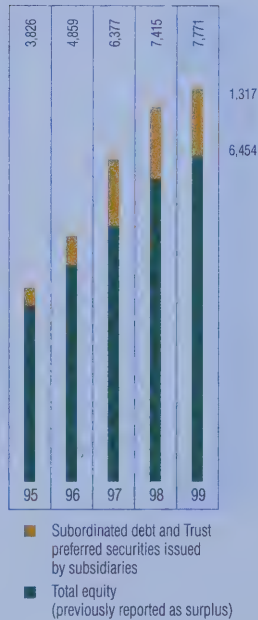
(Canadian \$ in millions)



- 16% increase in funds under management
- 28% increase in segregated fund assets
- 18% increase in other managed funds

Capital

(Canadian \$ in millions)



- Total equity of \$6.5 billion
- Total capital of \$7.8 billion
- Manufacturers Life's MCCR ratio was 239%

The MCCR (Minimum Continuing Capital and Surplus Requirements) is a measure of a company's capital strength. Manufacturers Life's MCCR was 239% at year-end 1999, well above the minimum prescribed by the Office of the Superintendent of Financial Institutions (Canada).

MCCR

Year	Ratio	Required Capital	Available Capital
1999	239%	\$3.3 billion	\$7.9 billion
1998	255%	\$3.0 billion	\$7.7 billion
1997	251%	\$2.5 billion	\$7.0 billion
1996	226%	\$2.5 billion	\$5.6 billion
1995	231%	\$2.0 billion	\$4.6 billion

Financial Performance

Although Canadian GAAP requires the presentation of financial information in distinct segments, the Company views the contracts comprising the general fund, segregated funds and other funds under management as alternative offerings that are managed interdependently because, typically, there are transfer options between the general fund and the segregated funds as a result of policyholder ability to change investment options or products. Fee income for investment management and administrative services provided to segregated funds is recorded in the general fund. As a result of similarities between general fund, segregated fund and mutual fund products from a business perspective and the many interdependencies, the Company measures certain items in aggregate. These key business measures are (1) growth of total premiums and deposits and (2) growth in funds under management.

Net Income

Manulife Financial reported record earnings in 1999 as adjusted shareholders' net income reached \$874 million, an increase of 23% from net income of \$710 million reported in 1998. This increase was primarily attributable to improved claims experience, continued growth in core insurance and wealth management operations, higher fee income from the administration of higher levels of segregated fund assets and improved investment results. These increases were partially offset by higher general expenses due to increased new business acquisition costs and investments in technology, back office and distribution infrastructure, together with commissions on higher sales, primarily variable annuities and 401(k) pension products in the United States.

The return on shareholders' equity (previously reported as surplus) for the year ended December 31, 1999 was 14.0% compared to 12.9% for 1998. Adjusted basic earnings per share for the year ended December 31, 1999 was \$1.75 compared to \$1.42 in 1998.

Consolidated net income for the year

SUMMARY STATEMENT OF OPERATIONS

(Canadian \$ in millions)

	1999	1998	1997
Premium income	\$ 8,672	\$ 5,696	\$ 5,622
Investment income	4,376	4,123	4,010
Other revenue	1,015	792	574
Total revenue	\$ 14,063	\$ 10,611	\$ 10,206
Policyholder benefits	\$ 9,974	\$ 7,241	\$ 7,185
General expenses	1,824	1,360	1,180
Commissions	886	758	688
Interest expense	179	158	156
Premium taxes	84	74	83
Non-controlling interest in subsidiaries	(114)	7	11
Trust preferred securities issued by subsidiaries	62	62	54
Total policy benefits and expenses	\$ 12,895	\$ 9,660	\$ 9,357
Income before gain on divestiture and income taxes	\$ 1,168	\$ 951	\$ 849
Gain on divestiture	—	—	176
Income taxes	(302)	(241)	(282)
Net income	\$ 866	\$ 710	\$ 743
Net loss attributable to:			
Participating policyholders (after demutualization)	\$ (8)	\$ —	\$ —
Net income attributable to:			
Mutual operations (prior to demutualization)	\$ 607	\$ 710	\$ 743
Shareholders (after demutualization)	267	—	—
Adjusted shareholders' net income	\$ 874	\$ 710	\$ 743
Net income	\$ 866	\$ 710	\$ 743

DEMUTUALIZATION

On September 23, 1999, Manulife Financial Corporation became the holding company of The Manufacturers Life Insurance Company ("Manufacturers Life"). As at that date and to reflect the change in corporate structure from a mutual company to a stock company, Manufacturers Life established two accounts: the participating policyholders' account and the shareholders' account. The participating policyholders' account includes the activities and earnings of participating policies. The shareholders' account is composed of all non-participating lines of business, transfers from the participating policyholders' account and net assets and related earnings.

Manulife Financial's consolidated net income for the year ended December 31, 1999 of \$866 million, representing the earnings of Manufacturers Life, is therefore comprised of (1) the results of operations as a mutual life insurance company from January 1, 1999 to September 23, 1999, and (2) the results of operations as a stock company from September 24, 1999 to December 31, 1999. A net loss of \$8 million was attributed to the participating policyholders' account for the 99-day period the Company operated as a stock company. Net income attributable to the period the Company operated as a mutual company amounted to \$607 million, while shareholders' net income for the 99-day period the Company operated as a stock company amounted to \$267 million, resulting in adjusted shareholders' net income of \$874 million in 1999.

Premiums and Deposits

Premiums and deposits increased by 31% from \$15.3 billion for the year ended December 31, 1998 to \$20.1 billion for the same period in 1999, primarily due to a 52% increase in premiums, from \$5.7 billion in 1998 to \$8.7 billion in 1999 and a 21% increase in segregated funds from \$8.8 billion in 1998 to \$10.7 billion in 1999. The increase in premiums was primarily attributable to: increased annuity sales in the United States and Canada; an increase in group life and health insurance premiums due to a one-time assumption reinsurance premium of \$766 million related to the pre-liquidation liabilities of the Canadian group life and health business of Confederation Life; and sales of single premium endowment products in Japan. Segregated fund deposits increased primarily due to sales of variable annuities and 401(k) pension products in the United States, partially offset by a decline in sales of variable annuities in Canada, reflecting a general decrease in sales in the Canadian investment fund industry and increased competition from variable annuity products that are similar to the Company's Guaranteed Investment Funds.

PREMIUMS AND DEPOSITS

(Canadian \$ in millions)	1999	1998	1997
General fund premiums	\$ 8,672	\$ 5,696	\$ 5,622
Segregated fund deposits	10,709	8,846	7,026
Mutual fund deposits	137	238	828
ASO premium equivalents	550	524	470
Total	\$ 20,068	\$ 15,304	\$ 13,946

Investment income

Investment income increased by 6% from \$4.1 billion in 1998 to \$4.4 billion in 1999. This increase reflected the positive performance in worldwide equity markets, a higher average level of general fund invested assets and continued improvement in the real estate markets. Investment income before provisions and amortization of net gains increased by 3% from \$3.5 billion in 1998 to \$3.6 billion in 1999 on higher average general fund invested assets of \$51.8 billion compared to \$49.1 billion in 1998. Amortization of realized and unrealized gains increased by 21% from \$649 million in 1998 to \$787 million in 1999, primarily due to exceptional worldwide equity markets. Approximately 40% of stocks support the Company's participating policies and the impact of an increase in investment income from these stocks is fully offset by a change in actuarial liabilities. The remaining 60% of stocks support other actuarial liabilities and the Company's capital. Investment income on these stocks impacts the Company's net income. Provisions against impaired assets decreased from \$61 million in 1998 to \$58 million in 1999. The establishment of provisions against U.S.-denominated high yield bonds in 1999 was partially offset by recoveries in international bonds, mortgages and the real estate portfolio. As a result of the aforementioned, total investment yield increased from 8.77% in 1998 to 9.02% in 1999.

INVESTMENT INCOME

(Canadian \$ in millions)	1999	1998	1997
Gross investment income before:	\$ 3,647	\$ 3,535	\$ 3,451
Recoveries on/(provisions for) impaired assets	(58)	(61)	25
Amortization of net realized and unrealized gains	787	649	534
Total	\$ 4,376	\$ 4,123	\$ 4,010
Yield	9.02%	8.77%	9.13%

Taxes, levies and assessments are a significant component of Manulife Financial's expenses. In addition to income and capital-based taxes, the Company is subject to other taxes reported as part of the Company's general expenses, including property and business taxes, premium taxes, employer payroll taxes, commodity and consumption taxes, and Canadian investment income taxes. Total taxes, levies and assessments, excluding income and capital-based taxes, amounted to \$243 million in 1999 compared to \$227 million in 1998.

Other Revenue

Other revenue increased by 28% from \$792 million in 1998 to \$1.0 billion in 1999. This increase was primarily attributable to a 28% increase in fees from \$690 million in 1998 to \$886 million in 1999. The increase in fee income was attributable to the growth in the Company's variable annuity and 401(k) pension assets in the United States, segregated funds in Canada and variable universal life assets in Hong Kong, together with an increase in fees from the provision of investment management services to institutions. Fees derived from the provision of administrative services to segregated funds increased by 30% in 1999 and accounted for 81% of fee income in both 1999 and 1998.

Policyholder Benefits and Expenses

Policyholder benefits increased by 38% from \$7.2 billion in 1998 to \$10.0 billion in 1999. This increase was primarily due to a \$2.4 billion increase in actuarial liabilities and to a \$343 million increase in net transfers to segregated funds. The increase in actuarial liabilities reflects higher sales of fixed-rate annuity products, together with an increase arising from the amendment to an external reinsurance program in the United States and the reserves established related to the assumption reinsurance agreement with the liquidator of Confederation Life. During 1999, non-recurring charges of \$16 million related to costs incurred as the Company worked toward making its systems Year 2000 compliant were fully offset by the release of provisions established in prior years within actuarial liabilities and therefore did not impact earnings. Costs incurred and offset by reserve releases in 1998 amounted to \$52 million. The increase in net transfers to segregated funds was primarily attributable to increased sales of U.S. annuities with a dollar-cost-averaging program that allows transfers of funds to segregated funds over a period. Policyholder dividends and experience rating refunds increased by 22% from \$604 million in 1998 to \$738 million in 1999. Policyholder dividends increased by 15% primarily due to growth in cash values of participating policies.

General expenses increased by 34% from \$1.4 billion in 1998 to \$1.8 billion in 1999. This increase was primarily attributable to costs associated with the first nine months of operations in Japan, and increased new business acquisition costs and investments in technology, back-office and distribution costs to support higher sales and asset growth in other areas of the Company. General expenses in Japan amounted to \$246 million.

Commissions increased by 17% from \$758 million in 1998 to \$886 million in 1999, primarily due to higher sales of variable annuities and 401(k) products in the United States and insurance products in Hong Kong and Japan. These increases were offset by reduced commissions related to accident and health reinsurance and from reduced sales of variable annuities in Canada.

Interest expense increased by 13% from \$158 million in 1998 to \$179 million in 1999. Premium taxes increased 14% from \$74 million in 1998 to \$84 million in 1999, due to an increase in sales. Costs related to Trust preferred securities issued by subsidiaries remained unchanged at \$62 million.

Non-controlling interest in subsidiaries generated a recovery of \$114 million in 1999, primarily reflecting the attribution of all losses incurred by the operation in Japan to Daihyaku Mutual. This compares to an expense of \$7 million in 1998.

Income taxes increased 25% from \$241 million in 1998 to \$302 million in 1999. The Company's 1999 provision for income taxes of \$302 million is comprised of \$28 million of current taxes payable and \$274 million of future taxes. The increase in the income tax expense reflects the increase in taxable earnings.

Funds under Management

The Company achieved a 16% growth in funds under management, as total funds managed increased from \$96.7 billion in 1998 to \$112.1 billion in 1999. This increase of \$15.4 billion included a currency translation decrease of \$3.9 billion in 1999 compared to a currency translation increase of \$4.2 billion in 1998. Segregated fund assets increased by 28% from \$38.2 billion as at December 31, 1998 to \$49.1 billion as at December 31, 1999. This increase was primarily due to strong sales of U.S. variable annuity and 401(k) pension products and

market appreciation, offset by a reduction due to a currency revaluation as the Canadian dollar strengthened against the U.S. dollar. General fund assets grew by 7% from \$53.1 billion as at December 31, 1998 to \$56.7 billion as at December 31, 1999, reflecting growth in assets supporting insurance products and equity, and assets associated with the Confederation Life assumption reinsurance arrangement. Growth in general fund assets was partially offset by a decline in general fund annuity assets and a reduction due to a currency revaluation as the Canadian dollar strengthened against the U.S. dollar.

FUNDS UNDER MANAGEMENT

(Canadian \$ in millions)	1999	1998	1997
General fund	\$ 56,708	\$ 53,102	\$ 50,523
Segregated funds	49,055	38,200	27,018
Mutual funds	1,641	1,708	2,125
Other managed funds	4,732	3,680	2,652
Total	\$ 112,136	\$ 96,690	\$ 82,318

Other managed funds represent pension funds, pooled funds, endowment funds and other institutional funds managed by the Company on behalf of others.

The 1996 total increased significantly due to the amalgamation with North American Life with the addition of \$17.9 billion in funds under management.

The 1997 mutual funds total decreased due to the divestiture of the U.S. mutual fund operations, with \$1.1 billion in funds under management.

Segregated fund assets, mutual fund assets and other managed funds are not available to satisfy the liabilities of the Company's general fund.

Differences between Canadian and U.S. GAAP

The consolidated financial statements of Manulife Financial are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain significant respects from U.S. GAAP.

The differences between Canadian GAAP and U.S. GAAP include accounting for premiums and deposits, invested assets and investment income and segregated funds. There are also differences in the calculation and accounting for actuarial liabilities and differences in reporting policy cash flows. These differences are described in more detail in Note 17 to the Financial Statements.

Differences between Canadian and Hong Kong GAAP

The consolidated financial statements of Manulife Financial are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain respects from Hong Kong GAAP.

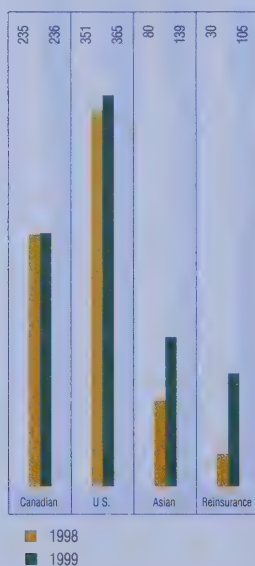
In Hong Kong, there are no accounting standards specific to life insurance companies; consequently, companies have more discretion in selecting appropriate accounting principles to prepare financial statements. The Canadian GAAP requirements for life insurance enterprises used by the Company in relation to its invested assets and non-actuarial liabilities are considered acceptable within the Hong Kong accounting framework. The computation of actuarial liabilities in Hong Kong is governed by the requirements of the Hong Kong Insurance Authority. In certain interest rate environments, actuarial liabilities determined in accordance with Hong Kong GAAP may be higher than actuarial liabilities computed in accordance with Canadian GAAP.

The Hong Kong Insurance Authority requires that insurance companies meet minimum solvency requirements. Each year, the Company compares the amount of net assets prepared in accordance with Canadian GAAP, as reported in the Company's annual regulatory return, with the minimum solvency margin required in Hong Kong. As at December 31, 1999, the Company's net assets determined in accordance with Canadian GAAP exceeded the minimum solvency margin required in Hong Kong.

Divisional Overview

Net Income

(Canadian \$ in millions)

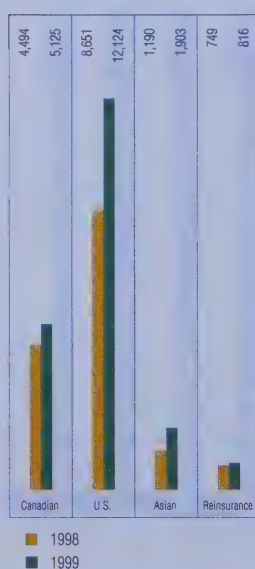


Record earnings in all Divisions as follows:

- Canadian Division \$236 million
- U.S. Division \$326 million
- Asian Division \$139 million
- Reinsurance Division \$105 million

Premiums and Deposits

(Canadian \$ in millions)

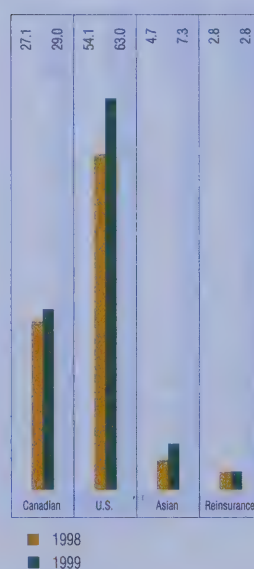


Strong increases in premiums and deposits in all Divisions:

- Canadian Division 14%
- U.S. Division 40%
- Asian Division 60%
- Reinsurance Division 9%

Funds under Management

(Canadian \$ in billions)



Funds under management growth driven by segregated funds:

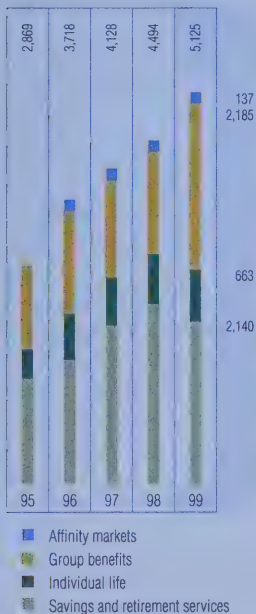
- Canadian Division 24%
- U.S. Division 30%
- Asian Division 27%

Total increase in funds under management:

- Canadian Division 7%
- U.S. Division 17%
- Asian Division 53%

Canada

Premiums and Deposits
(Canadian \$ in millions)



The Canadian Division offers a wide range of products and services in its wealth management and insurance operations. Wealth management product offerings include individual annuities, group pension products and mutual funds. Insurance product offerings include a full range of group life, health, dental and disability insurance products and services for Canadian small and medium-sized businesses and large corporations. Individual life insurance products are aimed at middle and upper income individuals and business owners. Insurance products are also directly marketed to members of professional, alumni, retiree and other associations and to the customers of financial and retail institutions.

Financial Performance

The Canadian Division's net income increased from \$235 million in 1998 to \$236 million in 1999. This result reflected more favourable claims experience and increased fees from the administration of segregated fund assets, which grew by 20%. These increases were offset by higher acquisition costs including one-time costs of \$14 million associated with the reorganization of its distribution operations, and increased expenses attributable to the development and launch of the new Manulife ONE product and investments in technology.

In 1999, the Canadian Division contributed 27% to the Company's net income, 26% of total premiums and deposits and as at December 31, 1999, accounted for 26% of the Company's funds under management.

SUMMARY STATEMENT OF OPERATIONS

(Canadian \$ in millions)	1999	1998	1997
Premium income	\$ 3,228	\$ 2,240	\$ 2,240
Investment income	1,696	1,668	1,755
Other revenue	173	143	114
Total revenue	\$ 5,097	\$ 4,051	\$ 4,109
Policyholder benefits	\$ 3,979	\$ 2,971	\$ 3,156
General expenses	562	495	417
Commissions	190	201	185
Other	67	66	64
Total policyholder benefits and expenses	\$ 4,798	\$ 3,733	\$ 3,822
Income before income taxes	\$ 299	\$ 318	\$ 287
Income taxes	(63)	(83)	(70)
Net income	\$ 236	\$ 235	\$ 217

Premiums and Deposits

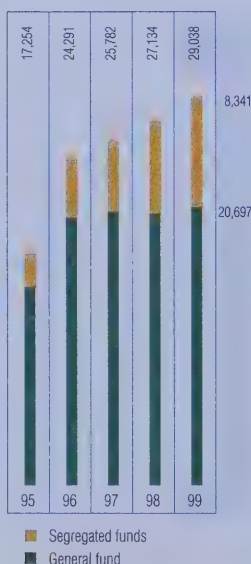
The Canadian Division's premiums and deposits increased by 14% from \$4.5 billion in 1998 to \$5.1 billion in 1999, primarily as a result of the one-time assumption reinsurance premium of \$766 million relating to the pre-liquidation liabilities of the Canadian group life and health business of Confederation Life. Fixed-rate annuity premiums increased by 33%, reflecting both the introduction of more competitive interest-crediting rates and continuing investor preference for fixed-rate savings products driven by the volatility in the Canadian equity market. These increases were offset by a 22% decline in segregated fund deposits, reflecting a general decline in sales in the investment fund industry, as well as increased competition from variable annuity products similar to the Company's Guaranteed Investment Funds, offered by other Canadian life insurance companies.

PREMIUMS AND DEPOSITS

(Canadian \$ in millions)	1999	1998	1997
Premiums	\$ 3,228	\$ 2,240	\$ 2,240
Segregated fund deposits	1,347	1,730	1,418
ASO premium equivalents	550	524	470
Total premiums and deposits	\$ 5,125	\$ 4,494	\$ 4,128

- Launched **Manulife ONE** to provide the first all-in-one, personal borrowing and banking account in Canada; Manulife Bank is the service provider
- Launched **GIF *encore* Millennium Account**
- Launched **10 new asset allocation funds for group pension customers**, the only Canadian insurer to offer this suite of funds
- Launched new lifestyle evaluation tool called **Manulife Healthstyles National Check-up**

Funds under Management
(Canadian \$ in millions)



Funds under Management

Funds under management increased by 7% from \$27.1 billion as at December 31, 1998 to \$29.0 billion as at December 31, 1999, largely due to an increase in segregated fund assets, driven by equity market appreciation and net new segregated fund deposits, as well as higher general fund assets, predominantly associated with the Confederation Life assumption reinsurance arrangement.

FUNDS UNDER MANAGEMENT

(Canadian \$ in millions)	1999	1998	1997
General fund	\$ 20,697	\$ 20,203	\$ 20,357
Segregated funds	8,341	6,931	5,425
Total funds under management	\$ 29,038	\$ 27,134	\$ 25,782

Product Development

With a focus on innovation, relevance and value to the customer, the Canadian Division introduced several important products to the Canadian financial services marketplace in 1999.

The Division launched **Manulife ONE**, a unique approach to managing money. **Manulife ONE** allows customers to consolidate their personal finances into one multi-purpose savings and borrowing account and pay down debt sooner. As part of the account package, **Manulife ONE** customers receive Quicken personal financial planning software, a co-branded **Manulife ONE/American Express Gold Card** and a debit card, plus telephone and Internet banking capabilities.

Through market research, the Division identified that Canadian investors were seeking a product that provided an investment vehicle to avoid potential volatility in the equity markets as the century changed. In response, the **GIF *encore* Millennium Account** was developed and launched allowing individual segregated fund investors to take advantage of a high fixed rate of return over the turn of the millennium. In conjunction with the launch of the Millennium Account, a new 100 per cent RSP-eligible foreign fund called the **Manulife U.S. Index RSP GIF *encore* Fund** was offered. In addition, a new rate-banding structure for the fixed-rate annuity (GIC-like) products was introduced, making the **Manulife Term Account** and **Lifestyle RRIF** offerings some of the most attractive in the industry and resulting in increased sales of fixed-rate annuities.

During 1999, the Division expanded the role of **Manulife Bank**, which now acts as the service provider for **Manulife ONE**, providing all underwriting, credit, administration, operations and systems support. **Manulife Bank** joined Interac and launched its bank machine **Access Card** allowing customers to make direct debit purchases and ABM withdrawals across Canada and around the world. **Manulife Bank** also introduced a new automatic approved **Access Line** of credit, available to many clients with non-registered **Manulife Guaranteed Investment Funds ("GIF")**, **GIF *encore*** contracts, and selected **Manulife Financial** universal policies.

The Division launched 10 new asset allocation funds for group pension customers in 1999 – five actively managed funds and five indexed funds – becoming the only insurance company in Canada to offer this suite of funds. **Group Pension** also launched a new investment only product, **Corporate Investment Options**, along with an Internet site with customer download capabilities. To provide value-added investment information to plan members of its defined contribution product, **Group Retirement Options (GRO)**, comprehensive personal rate-of-return calculations were also introduced on member statements and accounts on the Internet.

The Division's insurance operations continued to build on the success of its innovative **Healthstyles** underwriting program with the introduction of a fitness, health and lifestyle test called the **Manulife Healthstyles National Check-Up**. This campaign was the most successful media launch in the Division's history, due in part to the national popularity of its **Healthstyles** spokespeople, well-known "Body Break" personalities, Hal Johnson and Joanne McLeod.

The Division's **Group Benefits** operations piloted **Secure Internet Access for Plan Members**, featuring a status of plan member claim cheques as well as information about their health and dental coverage, all in a self serve

- Launched secure Internet access for group plan members to access health and dental benefits and claims information
- Reorganized wealth management operations to bring together four operations under a single umbrella

environment. A broad launch is scheduled in 2000. Manuscript Dynamic Maintenance was also introduced. This managed drug care program analyzes the plan member's prescription drug history and, where appropriate, allows longer prescriptions to reduce pharmacy dispensing fees.

Affinity Markets introduced Manulife Global, a new line of travel insurance products designed specifically for distribution through retail travel agents, opening up a new distribution channel for the Division. This initiative capitalizes on Affinity's expertise in underwriting Out of Country Medical insurance.

Technological Advancements

In 1999, the Canadian Division increased its investment in technology to enhance the delivery of its services, increase efficiency and respond to the changing needs of its customers. The automation of many administrative functions enables the Division to devote even more effort to developing innovative products and enhancing distribution capacity.

The Division's savings and retirement services business continued to successfully change its processes to provide a comprehensive and seamless Electronic Processing Environment to clients. This initiative will increase the speed of processing transactions while maintaining accuracy, and reflects the Division's ongoing commitment to customer service.

The insurance operation continued to focus on the development of an electronic life application, scheduled for implementation in 2000, to process and administer applications more efficiently. The Group Benefits area introduced a process that converts paper dental claims to electronic format, allowing automatic online adjudication and reducing average processing time for customer claims.

In mid-1999, the Division introduced its field representatives to Repsource, a password-protected, secure extranet. Repsource is designed to be a primary communications vehicle with, and for, agents and representatives in the field. Manulife also became the first financial institution in the world to obtain certification for ACORD OLifE 2.0 ("Olife"), a revolutionary data integration standard for the insurance industry, which allows desktop software used by agents from a variety of sources to 'talk to each other' in real time. Both Repsource and the Olife technologies provide greater administrative and technological efficiencies for advisors, making the time they spend with customers more productive.

Distribution Effectiveness

During 1999, the Canadian Division completed a significant distribution realignment of its individual home and field offices, resulting in a more focused, efficient regional distribution model with eight regional offices replacing 26 branches. Throughout this period of change, the Division continued to generate record individual life insurance sales, maintained all key advisor relationships and significantly grew sales within the national account (stockbroker) distribution channel.

In conjunction with the introduction of the new distribution model, the life insurance operations introduced the Actuarial Consultant role in regional offices – a function similar to that of Tax and Estate Planning Consultants – to assist advisors in developing solutions for high net-worth clients. The savings and retirement services business introduced a new Wholesaling Team, a group of highly skilled wholesalers who are expected to bring a new direction to sales and marketing initiatives.

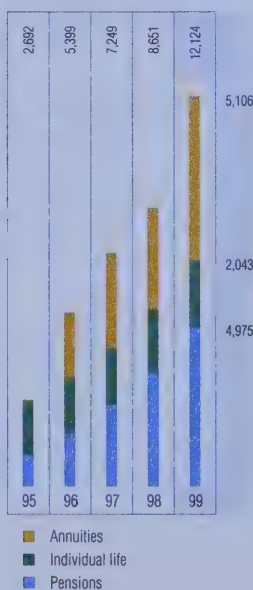
Affinity Markets continued to leverage its direct marketing expertise and expand its Internet distribution capabilities by increasing the number of sites through which it offers life and health insurance to members of associations. These sites allow members to review the benefits that are available, calculate their term insurance needs, and apply for coverage on-line.

In December 1999, the Division announced a comprehensive realignment of its individual wealth management operations, bringing all activities together under one umbrella. The new structure will include all individual savings and retirement products, including segregated funds and annuities, Manulife Bank, Manulife ONE and the retail mutual fund area of Elliott & Page. Management believes this streamlined organizational structure will position the Division to enhance its service capabilities for this market and support expected future growth.

United States

- Served more than 500,000 401(k) participants, an increase of more than 33% over 1998

Premiums and Deposits
(Canadian \$ in millions)



The U.S. Division provides insurance products and wealth management products and services. The Division's insurance operation focuses on the sale of life insurance products to high net-worth individuals. Wealth Management services include the pension operation concentrating on small and medium-sized businesses, and the annuities operation, which focuses primarily on middle- and upper-income individuals.

Financial Performance

The U.S. Division achieved record earnings in 1999 as net income increased by \$14 million from \$351 million in 1998 to \$365 million in 1999. This growth reflects improved life insurance claims experience and increased fees from the administration of segregated fund variable annuity and 401(k) pension product assets that increased by 30%. These increases were partially offset by commissions on higher sales of primarily variable annuities and 401(k) pension products, together with higher general expenses, due to increased new business acquisition costs and investments in technology, back office and distribution infrastructure incurred to support higher sales and asset growth.

In 1999, the U.S. Division contributed 42% to the Company's net income, 60% of total premiums and deposits and as at December 31, 1999, accounted for 56% of the Company's funds under management.

SUMMARY STATEMENT OF OPERATIONS

(Canadian \$ in millions)	1999	1998	1997
Premium income	\$ 3,093	\$ 1,814	\$ 1,712
Investment income	1,888	1,888	1,722
Other revenue	678	518	372
Total revenue	\$ 5,659	\$ 4,220	\$ 3,806
Policyholder benefits	\$ 3,920	\$ 2,765	\$ 2,524
General expenses	625	507	412
Commissions	467	327	288
Other	86	85	89
Total policyholder benefits and expenses	\$ 5,098	\$ 3,684	\$ 3,313
Income before income taxes	\$ 561	\$ 536	\$ 493
Income taxes	(196)	(185)	(178)
Net income	\$ 365	\$ 351	\$ 315

Premiums and Deposits

The U.S. Division's premiums and deposits increased by 40% from \$8.7 billion in 1998 to \$12.1 billion in 1999, driven mainly by increased deposits from sales of variable annuities and 401(k) pension products and increased insurance sales. Annuity premiums increased significantly due to sales under the dollar-cost-averaging program allowing pre-authorized period transfers from the fixed-rate general fund portfolio to a segregated fund. In addition, the amendment to an external reinsurance program, which has resulted in the retention of new annuity premiums, partially contributed to this increase. This business was fully reinsured in 1998.

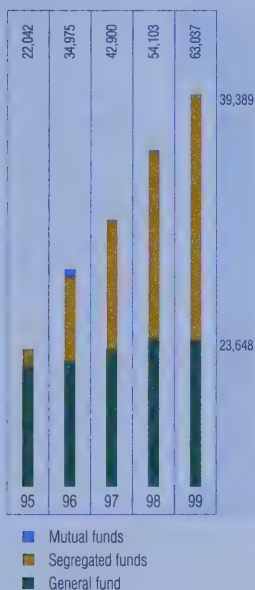
PREMIUMS AND DEPOSITS

(Canadian \$ in millions)	1999	1998	1997
Premiums	\$ 3,093	\$ 1,814	\$ 1,712
Segregated fund deposits	9,031	6,837	5,376
Mutual fund deposits	—	—	161
Total premiums and deposits	\$ 12,124	\$ 8,651	\$ 7,249

- Received Dalbar "Annuity Service Award" for second consecutive year
- Relaunched enhanced benefits for universal life and variable universal life
- Restructured investment alternatives for common investment platform; 63% of available funds exceeded median performance over the last five years
- Introduced Diet COLI, offering companies a turnkey executive benefits program for small companies

Funds under Management

(Canadian \$ in millions)



Funds under Management

Funds under management increased by 17% from \$54.1 billion as at December 31, 1998 to \$63.0 billion as at December 31, 1999, largely due to growth in segregated fund assets from net new deposits on variable annuities, 401(k) pension and variable insurance products and stronger U.S. equity markets, partially offset by the effect of the strengthening of the Canadian dollar against the U.S. dollar.

FUNDS UNDER MANAGEMENT

(Canadian \$ in millions)

	1999	1998	1997
General fund	\$ 23,648	\$ 23,879	\$ 22,040
Segregated funds	39,389	30,224	20,860
Total funds under management	\$ 63,037	\$ 54,103	\$ 42,900

Product Development

In 1999, the U.S. Division continued to focus firmly on customer needs by providing competitively priced products and superior service.

The U.S. Division's insurance business concentrates on estate and business planning solutions for high net-worth individuals where the emphasis is on large insurance policies. The average size of new insurance policies sold in 1999 is more than U.S. \$1.1 million. While the target market continues to be affluent individuals, during 1999, the Division continued to leverage this expertise into other related profitable niches such as the emerging affluent market and business insurance. The Division launched a variety of new products in 1999 including term insurance, survivorship term insurance, single life and survivorship variable universal life and small case COLI. It also refreshed its universal life products by providing more competitive no lapse guarantees. Product launches planned for 2000 include a single premium variable life product and redesigned term and universal life products to address the changing regulatory environment.

The Pensions business offers a variety of group annuity contracts designed for tax-qualified pension plans. Key features of the primary 401(k) pension product include the provision of investment services and individual participant level record keeping. Other product offerings focus on the provision of investment services for pension contracts distributed through third party administrators who provide their own record keeping. In 1999, Pensions continued to broaden distribution capabilities through increased focus on the broker dealer distribution channel. Product designs were tailored for this channel, to better position the business to compete with the offerings of mutual fund companies.

During 1999, Annuities focused on marketing enhanced products designed to respond to an increasingly competitive variable annuity marketplace. The marketing programs featured enhanced product provisions that provide highly attractive guaranteed income and death benefits protection to buyers. These features provide protection in the event of an equity market downturn, reducing risk to buyers.

The commitment to high quality customer service has been recognized by several independent rating organizations, including Dalbar Inc., which awarded Manulife Financial the Annuity Service Award in 1999 and 1998 for consistently providing exceptional service to contract holders. The Company was also ranked in the top quartile for service in each of the last three years. In the November 1999 issue of Plan Sponsor magazine, the Pension business received accolades for its 401(k) business in seven out of eleven Defined Contribution Service Level categories, with commendations for investment options and performance, and participant communication and education.

During 1999, the U.S. Division restructured the underlying asset managers and investment funds of the common investment platform, which included the replacement of seven asset managers, the creation of five new funds and the consolidation of two funds. This platform is designed to meet the needs of all the U.S. Division's segregated fund businesses. The realignment increases the range of investment options across various asset classes and investment styles; at year-end, customers had a selection of 16 fund managers and 39 investment funds.

• **Enhanced distribution with expansion of Manulife Wood Logan to pensions and insurance**

Technological Advancements

The U.S. Division believes developing and leveraging technology is key in its strategy to meet customers' increasing demands for value, choice and service. Technology is an enabler that will allow the business to provide consistent, high-quality customer experiences, no matter what product or distribution channel is chosen.

During 1999, the U.S. Division completed several key projects that focused on providing improved service to customers and business partners, particularly in the area of Internet access. Individual pension plan participants are now able to access customized plan performance information through the Internet and to initiate transactions via voice recognition technology. In addition, plan sponsors and third party administrators have Internet access to the plans managed on their behalf by U.S. Pensions. The Division intends to expand its Internet capabilities in 2000 by offering pension plan participants fully personalized Internet access to 401(k) investment and retirement planning advice with instant decision-making and execution capabilities for periodic re-balancing. This initiative will be pursued together with mPower, one of the United States' leading online 401(k) retirement investment advisors.

Annuities brokers now have Internet access to the U.S. Annuities Web site, making it easier for them to access information on account values, status of new business submissions and compensation. In 2000, this initiative will be expanded so that new business can be submitted on-line and sales compensation can be paid electronically. In 1999, the Division's insurance operations launched an extranet site that allows producers to transact business with the Company more conveniently by reviewing the status of cases and providing access to administrative forms.

The U.S. Division continued to seek synergies across all business lines in 1999 in order to gain administrative efficiencies. This initiative will continue in 2000 as the Division's back-office systems and processes are aligned to keep pace with its sales success. The Division is planning the implementation of a major new agent compensation system to meet the needs of all businesses, including its expanding distribution channels. The Division also intends to continue the re-engineering of its Insurance new business processes to meet current and expected future growth in business volumes. A new Annuity system is also expected to significantly expand administrative capabilities.

Distribution Effectiveness

In 1999, the U.S. Division continued to broaden its multi-channel distribution network with all businesses working together to take advantage of each other's existing relationships. The insurance operation expanded its distribution capabilities by establishing new relationships with national and regional broker dealers, national and local producer groups and banks. In 1999, approximately 39% of new insurance sales were attributable to these non-traditional distribution channels, double the prior year.

In the wealth management operation, the Pensions business continued to pursue its strategy of expanding distribution capabilities beyond its traditional third party administrator channels into the broker dealer channel. There are now almost 300 selling agreements established in this new channel, an increase of 130 from 1998.

Manulife Wood Logan provides sales and marketing support for variable annuity products and is recognized as the leading provider in the broker dealer distribution channel. The number of wholesalers has increased significantly from 45 in 1998 to 65 in 1999. Manulife Wood Logan offers an industry-leading continuing education curriculum to registered representatives, awarding 63,000 credit hours in 1999, up from 42,000 in 1998. Registered representatives attending the training program consist of financial planners, financial consultants and stockbrokers. During 1999, Manulife Wood Logan became a wholly-owned subsidiary of the Company.

Asia

Manulife Financial has operated in Asia since 1897, beginning in Hong Kong and the Philippines and, more recently, expanding into Singapore, Indonesia, Taiwan, Shanghai (China), Japan and Vietnam. The Asian Division provides a wide range of wealth management products including pensions and mutual funds, and insurance product offerings including individual and group life and health insurance.

Financial Performance

The Asian Division's net income increased by 74% from \$80 million in 1998 to \$139 million in 1999, due to business growth, primarily in Hong Kong, improved credit experience as economies continued to recover, favourable claims experience, increased fees from administration of variable universal life insurance contracts and an increase in investment income as a result of higher general fund assets and equity market appreciation. The Company's operation in Japan, Manulife Century Life, commenced business on April 1, 1999. In its first nine months of operations, the overall impact of the Japan business on the Division's net income was minimal as its operating losses were fully allocated to the non-controlling interest.

In 1999, the Asian Division contributed 16% to the Company's net income, 9% of premiums and deposits and as at December 31, 1999, accounted for 6% of the Company's funds under management. Hong Kong continues to be Manulife Financial's largest operation in Asia, accounting for 58% of Asian Division's premiums and deposits in 1999.

SUMMARY STATEMENT OF OPERATIONS

(Canadian \$ in millions)

	1999	1998	1997
Premium income	\$ 1,533	\$ 885	\$ 868
Investment income	310	212	231
Other revenue	69	47	37
Total revenue	\$ 1,912	\$ 1,144	\$ 1,136
Policyholder benefits	\$ 1,244	\$ 693	\$ 669
General expenses	484	227	222
Commissions	137	103	107
Other	(80)	33	36
Total policyholder benefits and expenses	\$ 1,785	\$ 1,056	\$ 1,034
Income before income taxes	\$ 127	\$ 88	\$ 102
Income taxes	12	(8)	(5)
Net income	\$ 139	\$ 80	\$ 97

Premiums and Deposits

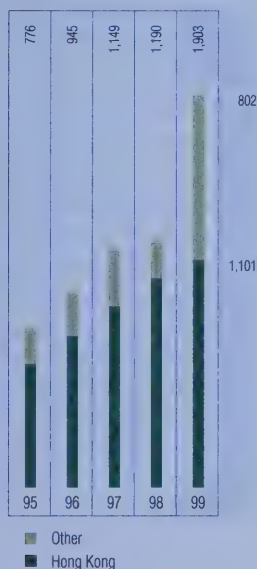
Asian Division's premiums and deposits increased by 60% from \$1.2 billion in 1998 to \$1.9 billion in 1999. This increase was driven primarily by sales of single premium endowment products in Japan, growth in individual insurance premiums in Hong Kong, and by business growth and improved retention in smaller markets, reflecting the stabilization of the economic and political conditions in most Asian countries in which the Company operates.

PREMIUMS AND DEPOSITS

(Canadian \$ in millions)

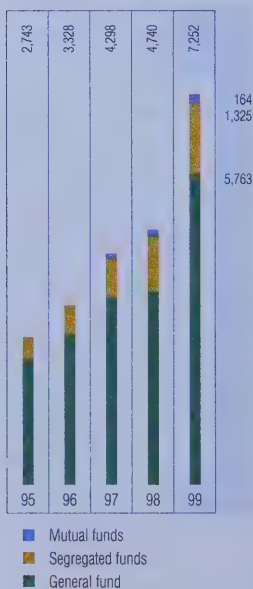
	1999	1998	1997
Premiums	\$ 1,533	\$ 885	\$ 868
Segregated fund deposits	331	279	232
Mutual fund deposits	39	26	49
Total premiums and deposits	\$ 1,903	\$ 1,190	\$ 1,149

Premiums and Deposits
(Canadian \$ in millions)



- Approved as a provider of **Mandatory Provident Fund (MPF) business**; established MPF Assistance Program for prospective clients; marketing program launched February 2000
- Launched Premier Series, a series of whole life insurance plans
- Established Manulife Century Life, the first direct Canadian insurance investment and the largest Canadian joint venture investment in Japan
- Established the first wholly foreign-owned life insurance company in Vietnam with the establishment of Chinfon-Manulife

Funds under Management
(Canadian \$ in millions)



Funds under Management

Funds under management increased by 53% from \$4.7 billion in 1998 to \$7.3 billion in 1999, primarily due to the operation in Japan. Segregated fund assets grew by 27% primarily due to asset appreciation and net new variable pension deposits in Hong Kong.

FUNDS UNDER MANAGEMENT

(Canadian \$ in millions)

	1999	1998	1997
General fund	\$ 5,763	\$ 3,577	\$ 3,473
Segregated funds	1,325	1,045	733
Mutual funds	164	118	92
Total funds under management	\$ 7,252	\$ 4,740	\$ 4,298

Product Development

In 1999, the Company made significant progress in its preparation for the launch of the Mandatory Provident Fund ("MPF") business, scheduled by the Hong Kong regulatory authorities to take place in February 2000. This legislative program requires every employer to enroll employees into an approved pension plan. The Asian Division has been planning for this legislative change over the last two years by designing products that meet the requirements of the legislation, building administrative systems and processes and enhancing brand awareness. The Division's application to become a provider was approved in October 1999, while applications for approval of products and funds are under review. The Division's MPF Assistance Program launched in 1998 – the only one of its kind in the market – continued to provide information and insights to prospective customers to better understand the MPF legislation and consider their product choices.

The Asian Division continued to build on the success of its 1998 Hong Kong launch of The Premier Lady product, an innovative individual life product with a significant health management focus aimed at women aged 18 to 45. In 1999, the product was refined to target a wider age group and to provide upgraded coverage, and was launched in a number of other jurisdictions. The Division refreshed and relaunched all core products in the Hong Kong Individual Life Insurance line in 1999 to provide more choices to customers.

In Indonesia, a unit-linked product denominated in local currency instead of U.S. dollars gained popularity among customers who choose to eliminate currency risk. This product was launched in late 1998.

In Shanghai, the Company is focusing on the development of new participating products that deliver better value to customers, for submission to the regulatory authorities for approval. The Company hopes to introduce these new products in the first half of 2000.

During 1999, the Company commenced operations in Vietnam as the first foreign insurance company in the country, providing life insurance products and services to a relatively under-insured market. The Company withdrew from the Korean market with the sale of interest in its Korean joint venture to its joint venture partner in October 1999.

Manulife Century Life began operations in Japan in April 1999, with a product portfolio transferred from its joint venture partner. In November 1999, Manulife Century Life launched its first new product, "Suwan Right," an innovative product in Japan combining non-smoker life insurance coverage with additional benefits paid on diagnosis of cancer.

Technological Advancements

In preparation for servicing prospective Mandatory Provident Fund clients, an imaging and workflow management system was developed in Hong Kong to ensure that a high volume of documents will be processed on a timely basis and information concerning the status of any documents submitted by clients is available to them upon their inquiry. The system will also improve communications with customers by producing standard documentation and mailings on a timely basis. In 1999, the Customer Call Center in Hong Kong was enhanced to provide more extensive service to Pension clients, including the ability for plan members to access their own personal data, such as account balances, through the use of secure personal identification numbers.

The Asian Division is focused on enhancing business processes and systems across the Division to better meet its customers' service requirements. A study on e-business was initiated during the year and will continue into 2000 to explore the application of this technology in servicing the needs of customers.

In December 1999, Manulife Century Life signed an agreement with an external vendor to purchase and customize a new policy administration system for its operations. This investment will allow the Japan operation to develop new products more quickly while improving customer service and the efficiency of back-office operations.

Distribution Effectiveness

The Asian Division generally markets its products through agents who sell the Company's products exclusively because customers clearly prefer to purchase from individuals who are known and trusted by them. Other distribution channels, such as brokers, direct marketing and sales through bank retail outlets generally account for a small share of new product sales, except in Singapore where bank distribution is an important and growing alternative channel to deliver products to customers.

In 1999, the Asian Division significantly expanded the tied agency force, increasing by 23% to 6,510 agents, excluding Japan, where the Company has 5,300 sales representatives, uses 2,400 tax accountants and independent brokers and employs 170 financial consultants. Programs were initiated in a number of territories, including Hong Kong, Taiwan and Singapore, to provide training to agents to become qualified financial advisors.

In Hong Kong, the agency force and back-office staff were trained to become qualified in delivering the Mandatory Provident Fund product and to service prospective customers. The Division believes it is well poised to build a large market share in the Mandatory Provident Fund business due to its large exclusive agency force.

In Japan, new training materials have been developed to support needs-based selling and financial planning. Training programs to improve the skills and abilities of the sales representatives are under development and will be launched to all sales representatives in 2000.

Reinsurance

The Reinsurance Division provides life and accident and health reinsurance as well as financial reinsurance to customers in Canada, the United States, Europe and Asia. Reinsurance is the assumption of insurance risk from another insurer. The Reinsurance Division specializes in retrocession, a form of reinsurance involving the assumption of insurance risk from other reinsurers. Reinsurance, including retrocession, is provided to assist customers in managing their claims volatility by transferring a portion of claims risk to Manulife Financial. Manulife Financial also supports a customer's new sales growth through the reinsurance of new policies and the costs of such policies. Through its financial reinsurance products, the Reinsurance Division provides customized retrocession to life and property and casualty reinsurance companies who seek to cede or restructure a portion of their reinsurance liabilities in order to finance mergers and acquisitions, improve regulatory capital ratios, increase return on capital, improve price competitiveness or reduce the impact of financial loss.

Financial Performance

The Reinsurance Division reported record earnings in 1999 with net income increasing by \$75 million from \$30 million in 1998 to \$105 million in 1999, driven by favourable claims experience in the Life Reinsurance business line and improved claims experience in the Accident and Health Reinsurance business line. Investment income also increased due to a higher average level of general fund invested assets supporting the business combined with rising investment returns. Premiums and commissions in the Accident and Health Reinsurance business line continued to decline as the Company exited the U.S. medical reinsurance market.

In 1999, the Reinsurance Division contributed 12% to the Company's net income, 4% of premiums and deposits and as at December 31, 1999, accounted for 3% of the Company's funds under management.

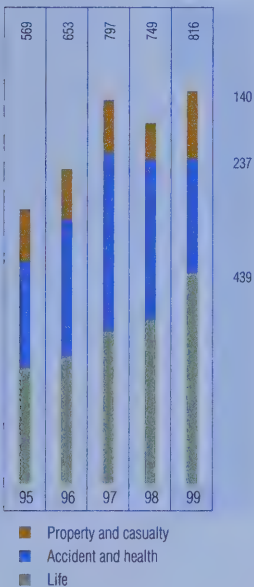
SUMMARY STATEMENT OF OPERATIONS

(Canadian \$ in millions)

	1999	1998	1997
Premium income	\$ 816	\$ 749	\$ 797
Investment income	169	151	128
Other revenue	11	8	7
Total revenue	\$ 996	\$ 908	\$ 932
Policyholder benefits	\$ 734	\$ 729	\$ 732
General expenses	33	37	28
Commissions	76	103	100
Other	8	8	7
Total policyholder benefits and expenses	\$ 851	\$ 877	\$ 867
Income before income taxes	\$ 145	\$ 31	\$ 65
Income taxes	(40)	(1)	(10)
Net income	\$ 105	\$ 30	\$ 55

• Portfolio of more than \$150 billion of life reinsurance and retrocession inforce

Reinsurance Premiums
(Canadian \$ in millions)



Premium Income

The Reinsurance Division's premiums increased by 9% primarily due to a one-time assumption reinsurance transaction in the Life Reinsurance business line and a large property and casualty transaction. Accident and health reinsurance premiums continued to decrease in 1999 as the Company executed its strategy to exit the U.S. medical reinsurance market.

PREMIUMS

(Canadian \$ in millions)

	1999	1998	1997
Life reinsurance	\$ 439	\$ 341	\$ 317
Accident and health reinsurance	237	333	372
Property and casualty reinsurance	140	75	108
Total premiums	\$ 816	\$ 749	\$ 797

Accomplishments

In 1999, Manulife Financial continued to maintain its position as the leading life retrocessionaire in North America, providing risk management solutions to its clients with a portfolio of more than \$150 billion of life reinsurance inforce.

The Life Financial area was expanded to offer more innovative and timely solutions to meet its clients' financial management needs. Strategic discussions with clients to gain a better understanding of their business and to assist them in achieving their objectives were undertaken. Focus on strengthening relationships with significant intermediary sources resulted in additional new business for the Life Financial area.

Operating primarily in the non-traditional retrocession market, the Property and Casualty business line's primary market focus is on large international reinsurers. Manulife Financial offers multi-year and multi-line reinsurance coverage and works closely with clients to develop product solutions that best meet their financial and risk management needs. During 1999, the Property and Casualty business line expanded its market presence in specifically-targeted Asian markets by establishing client and broker contacts and obtained regulatory approval for non-traditional reinsurance products. Broker contacts were increased overall, resulting in an expansion of this line's ability to source business through this channel.

Accident and Health Reinsurance provides a diverse range of risk coverage to insurers and reinsurers. The business is written on a global basis and types of coverage include accidental death and dismemberment; mortality stop loss coverage; catastrophic excess of loss coverage; group term life; sporting and entertainment risks; and occupational accident coverage. In 1999, the Accident and Health business line's claims experience improved compared to prior years as the business line completely exited the U.S. medical reinsurance market. The business line continued to reduce its exposure to classes of business where the margins were considered inappropriate and reduced its use of third parties to perform core underwriting and claims functions.

Investments

- 80% of Elliott & Page's mutual fund assets achieved an above-median one-year performance ranking
- Established investment offices in Hong Kong and Japan to support growing Asian insurance operations

Manulife Financial's Investment Management Services supports the Company's insurance, pension and annuity businesses by developing and implementing strategies to manage risk and enhance the yield of assets under its management. It also provides investment management services to third parties, principally institutional customers in Canada and in 1999, distributed the Elliott & Page proprietary mutual funds within Canada. The Company is one of the largest commercial mortgage lenders, and real estate direct owners and managers in Canada, and a dominant player in the Canadian corporate bond market. Its securities management activities span North America, Europe and Asia. Investment Operations is comprised of two primary business areas: Asset Selection Group and Asset Origination Group.

Asset Selection Group

The Asset Selection Group selects and manages assets others have created. This group encompasses the publicly traded securities markets and is comprised of Manulife Securities Operations, Elliott & Page, Manulife International Investment Management Limited and 67.9%-owned Seamark Asset Management Limited. Elliott & Page, the Company's leading asset management subsidiary, directly manages a portion of the Company's general fund assets, segregated funds and mutual funds. It also offers a full range of investment and mutual fund management services to third parties. Manulife International Investment Management Limited directly manages the Company's international investment portfolio. Seamark Asset Management Limited specializes in the management of pension funds, endowment funds, insurance company funds and private client assets.

Asset Origination Group

The Asset Origination Group focuses on creating assets to enhance yields and provide a competitive advantage to the Company. The group includes the Mortgage and Real Estate Operations, Manulife Capital, NAL Resources Management Limited ("NAL Resources") and 80%-owned Regional Power Inc.. Manulife Capital originates and manages a portfolio of non-traditional assets in Canada and the United States. Non-traditional assets include, but are not limited to, private structured debts and equity investments in various industries. NAL Resources manages oil and gas properties in Alberta, Saskatchewan and Ontario for the Company and for third parties. Regional Power Inc. is in the business of acquiring, developing and constructing hydro-electric generating stations.

Accomplishments

In 1999, the Company commenced the reorganization of its wealth management operations to combine Manulife Investment Management Services at Head Office with that at Elliott & Page and simultaneously merged the retail mutual fund operations of Elliott & Page into the newly created individual wealth management operations of the Canadian Division. This change will facilitate increased focus on investment management performance, and streamline and improve the cost effectiveness of the Asset Selection Group.

Consistent with its goal of providing enhanced yields, the Asset Origination Group continued to grow its portfolio of non-traditional assets and achieved a return in excess of 20% on assets maturing in 1999. During the year, NAL Resources acquired 100% of Ocelot's Canadian oil and gas properties at a time when oil prices were approximately U.S. \$19 a barrel. The Company also securitized an additional \$331 million of Canadian commercial mortgages subsequent to implementing the first commercial mortgage securitization program in Canada last year.

In 1999, two investment offices in Hong Kong and Japan were opened to support the Company's growing Asian insurance operations.

• For the second consecutive year, Manulife securitized more than \$300 million of Canadian mortgages

General Fund Assets

Manulife Financial's general fund assets grew to \$56.7 billion in 1999. These assets support \$39.7 billion in actuarial liabilities and \$17.0 billion in equity and other liabilities. The portfolio mix of assets backing actuarial liabilities reflects a conservative investment philosophy and takes into account the risk attributes of the liabilities together with expectations of market performance. The asset mix backing surplus and other liabilities reflects a management philosophy that focuses on maximizing total returns, subject to overall risk constraints.

The re-balancing of asset mix, prudent credit risk management policies and favourable market conditions have combined to improve the diversity and quality of the Company's assets. The Company's asset-liability matching policies ensure that any changes in the value of assets attributable to foreign exchange fluctuations are offset by changes in the related liability.

ASSETS BY CATEGORY

(Canadian \$ in millions)	1999	%	1998	%
Bonds	\$ 30,853	58	\$ 30,691	61
Mortgages	6,867	13	7,702	15
Stocks	4,832	9	4,042	8
Real estate	3,179	6	2,992	6
Policy loans	3,207	6	3,137	6
Cash and short-term investments	3,047	6	1,329	3
Other investments	1,180	2	499	1
Total invested assets	\$ 53,165	100	\$ 50,392	100
Other assets	3,543		2,710	
Total assets	\$ 56,708		\$ 53,102	

Bonds

While bonds increased slightly, their weighting declined to 58% of general fund invested assets as at December 31, 1999. The Company's investment strategy includes continuous adjustments to the bond portfolio in order to improve yields, while optimizing the matching of asset cash flows to the estimated liability requirements. As at December 31, 1999, 91% of the bond portfolio was rated as investment grade. Of the total bond portfolio, 40% was invested in government-related securities; the remainder was primarily composed of non-callable corporate bonds. The bond portfolio was 37% denominated in Canadian dollars, 54% in U.S. dollars and the remainder in other currencies.

Mortgages and Real Estate

As at December 31, 1999, mortgage investments represented 13% of general fund invested assets. The decrease in the mortgage portfolio was due to sales and the mortgage securitization program. As at December 31, 1999, commercial mortgages constituted 98% of total mortgages, with 65% located in Canada and the remainder in the United States. All mortgages are secured by properties in Canada or the United States and are diversified by location, industry sector and mortgagor. The Company invests almost entirely in first mortgages. The Company intends to continue to seek opportunities to securitize commercial mortgages to the extent it is able to originate more mortgages than the amount required to support on-balance sheet liabilities.

As at December 31, 1999, real estate represented 6% of the consolidated general fund invested assets, with 41% located in Canada and 59% in the United States. Commercial office properties represented 66% of the real estate portfolio, with the remainder split among residential, retail, industrial and other property classifications. The Company has implemented a strategic plan to sell a number of smaller properties. The proceeds of these sales are being reinvested in industrial and office properties in high-growth regions. The Company expects to continue this process during the next few years.

• Low level of non-performing assets

Net Impaired Assets

(As a per cent of net invested assets)



Stocks

Stocks increased from 8% to 9% of general fund invested assets as at December 31, 1999 due to market appreciation and new purchases. The stock portfolio was invested 33% in stocks of Canadian issuers, 51% in stocks of U.S. issuers, 7% in stocks of Asian issuers and 9% in stocks of other issuers. The Company's stock portfolio is diversified by industry sector and issuer, and consists almost entirely of listed common shares. The largest single issuer in the Canadian portfolio represented 8.2% of that portfolio and the largest single issuer in the U.S. portfolio represented 2.9% of that portfolio.

Management believes that, over the long term, stocks provide greater returns than other asset classes. The strategy for the Canadian and Asian stock portfolio is to identify and acquire undervalued stocks with strong balance sheets and good earnings potential. The U.S. stock portfolio is managed as a passive index fund against the Standard & Poor's 500 index.

Impaired Assets

The carrying value of impaired assets, net of allowances, was equal to \$196 million as at December 31, 1999, virtually unchanged from last year. The impaired assets were largely composed of U.S. high yield bonds and commercial mortgages. The total allowance for impaired assets decreased from \$177 million as at December 31, 1998 to \$132 million as at December 31, 1999. Net impaired assets as a percentage of total invested assets decreased from 0.40% in 1998 to 0.37% in 1999.

Overall, Manulife Financial remains conservative in its provisioning for credit losses and the level of impaired assets continued at low levels. Management believes, based upon a review of the investments and related market trends, that the allowances taken against the carrying value of invested assets are adequate to address all exposures. However, no assurance can be given that the allowances taken will in fact be adequate to cover all future losses or that additional provisions or asset writedowns will not be required in the future.

In addition to allowances for specific losses, Manulife provides for future losses from asset defaults in the calculation of its actuarial liabilities. At December 31, 1999, the reserve for future credit losses included within actuarial liabilities was \$1.2 billion compared to \$1.1 billion as at December 31, 1998. This increase was attributable to the growth in assets supporting the actuarial liabilities.

Risk Management

The Company has established risk management policies and procedures designed to measure and control risk in all of its business activities. These policies and procedures are reviewed periodically by senior management, the Board of Directors, internal and external auditors, and regulators.

Under the direction of the Board of Directors, senior management develops all risk management policies. Policies and procedures with respect to asset-liability mismatch risk, liquidity risk, currency risk and credit risk are approved by the Corporate Risk Management Committee, which is a committee comprised of senior management, and by the Board of Directors. Policies with respect to pricing risk and claims risk are approved by the Appointed Actuary. The Board of Directors approves policy retention limits. All risk management policies and procedures are subject to review at least annually to evaluate their continued appropriateness. Senior management reports regularly to the Board of Directors on all key risks including, in addition to the risks identified above, legal, political, regulatory, market conduct, competitive, environmental and other operating risks.

Asset-Liability Mismatch Risk

The Company's policy is to segment general fund product liabilities with similar characteristics. For each product liability segment, the Company's policy is to invest in assets with characteristics that closely match the characteristics of the product liabilities. The product characteristics considered include adjustability of credited interest rates, levels and terms of credited interest rate guarantees, anticipated incidence and potential volatility of policy benefits and policy surrender features. Asset characteristics considered include principal guarantees, levels and terms of yields, anticipated incidence and potential volatility of income, maturity terms, principal prepayment features, and marketability. As a result, products with interest rate and term guarantees, such as fixed-rate annuities and pension products are supported predominantly by fixed-rate bonds and mortgages. Products that allow adjustments to credited interest rates or premiums, such as participating whole life and universal life insurance, are supported by a broader range of assets, including real estate and equities. Further, for each product liability segment, targets are established for the proportion of assets by type, taking into consideration the characteristics of the product liabilities.

The Company may be exposed to loss of future investment income if the timing and amount of cash flows from assets supporting products with credited interest rate and term guarantees, such as fixed-rate annuities and pension products, do not match the timing and amount of payments required to be made to policyholders of these products. If cash flows from assets exceed cash flows on liabilities, and interest rates fall, the Company may be required to reinvest the excess cash flows at reduced yields. If cash flows on liabilities exceed cash flows from assets, and interest rates rise, the Company may be required to sell assets at a loss. In both cases, the Company's results of operations would be adversely impacted.

To manage this exposure, the Company has established interest rate risk policies for each product liability segment that are designed to keep potential losses within acceptable limits. Under these policies and procedures, authority and accountability for managing and monitoring interest rate risk are clearly defined by the Corporate Risk Management Committee; the duration of assets and liabilities are matched within prescribed guidelines, asset and liability positions are updated daily for material business lines, and interest rate exposure is reported to senior management. The Company employs a variety of sophisticated analytical techniques designed to quantify and manage interest rate risk, including cash flow gaps, partial durations, convexity, value at risk and surplus sensitivity to predetermined scenarios.

The cash flow gap summary below shows Manulife Financial's exposure to interest rate risk on its fixed-rate pension and annuity portfolios as at December 31, 1999 and 1998.

1999 CASH FLOW GAP (Canadian \$ in millions)	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years
Canadian annuity and pension business				
Assets	\$ 2,940	\$ 5,659	\$ 2,920	\$ 8,915
Liabilities	2,844	5,751	2,927	8,912
Cash flow gap	\$ 96	\$ (92)	\$ (7)	\$ 3
Gap as a per cent of Canadian annuity and pension assets	0.7%	(0.7)%	(0.1)%	–
U.S. annuity and pension business				
Assets	\$ 1,390	\$ 2,847	\$ 1,857	\$ 6,974
Liabilities	1,472	2,597	1,845	7,154
Cash flow gap	\$ (82)	\$ 250	\$ 12	\$ (180)
Gap as a per cent of U.S. annuity and pension assets	(1.0)%	3.1%	0.2%	(2.2)%
1998 CASH FLOW GAP (Canadian \$ in millions)				
Canadian annuity and pension business				
Assets	\$ 3,007	\$ 6,568	\$ 3,111	\$ 9,336
Liabilities	2,915	6,546	2,959	9,602
Cash flow gap	\$ 92	\$ 22	\$ 152	\$ (266)
Gap as a per cent of Canadian annuity and pension assets	0.7%	0.2%	1.1%	(2.0)%
U.S. annuity and pension business				
Assets	\$ 1,376	\$ 2,843	\$ 2,698	\$ 7,963
Liabilities	1,565	2,992	2,243	8,080
Cash flow gap	\$ (189)	\$ (149)	\$ 455	\$ (117)
Gap as a per cent of U.S. annuity and pension assets	(2.3)%	(1.8)%	5.6%	(1.4)%

Liquidity Risk

Liquidity risk is the risk that the Company will not have access to sufficient cash to meet its liabilities as they become due. These liabilities include both normal course of business liabilities and unexpected liabilities. To address this risk, the Company's liquidity is managed centrally on the basis of cash flow forecasts and day-to-day monitoring of actual cash movements. The overall liquidity management process is governed by a number of policies and procedures designed to ensure that adequate liquidity is available. These include: designing products to reduce the possibility of unexpected liquidity demands; maintaining investment portfolios with adequate levels of marketable investments; and maintaining access to other sources of liquidity, such as commercial paper funding and committed standby bank credit facilities.

The Company maintains operating liquidity levels at or above the level of one month's operating cash outflows. Strategic liquidity levels are maintained at or above the level of total policyholder cash surrender values plus long-term debt principal repayment obligations due in the next 24 months. The long-term debt principal repayment obligation due in the next 24 months was nil as at December 31, 1999 and 1998.

The table below shows the Company's net available liquidity, assuming policyholders exercised all surrender policy rights as at December 31, 1999 and 1998.

LIQUIDITY

(Canadian \$ in millions)	1999	1998
Sources of liquidity		
Net cash and short-term investments	\$ 2,810	\$ 1,140
Market value of marketable investments		
Stocks	6,505	4,989
Investment-grade bonds	25,657	28,529
Discounted market value of other bonds, mortgages and real estate	11,931	12,646
Unused commercial paper and note limits	1,000	1,000
Committed unused bank lines	833	861
Total sources of liquidity	\$ 48,736	\$ 49,165
Uses of liquidity		
Cash surrender value of insurance and annuity policies surrenderable at:		
book value without surrender charges	\$ 17,033	\$ 15,604
book value less surrender charges	3,473	3,094
market value	6,570	7,591
Total uses of liquidity	\$ 27,076	\$ 26,289
Net available liquidity	\$ 21,660	\$ 22,876

Currency Risk

Manulife Financial, because of the geographic diversification of its operations, has liabilities denominated in a variety of currencies, principally Canadian, U.S. and Hong Kong dollars, and Japanese Yen. Manulife Financial has a policy of matching the currency of its general fund assets with the currency of the liabilities these assets support. The Company also has a policy of generally matching the currency of its equity with the currency of its liabilities, which is designed to insulate the Company's equity to liability and MCCR ratios from changes in foreign currency exchange rates. The Company's foreign exchange policy establishes the currencies in which the Company is authorized to transact. In addition, the policy establishes limits to foreign currency exposure as measured by Value at Risk ("VaR"), a risk management methodology based on statistical analysis. The model employed by Manulife Financial is J.P. Morgan's RiskMetrics and is an accepted methodology in the financial services industry. The VaR methodology gives a possible loss in market value of the Company's assets due to changes in foreign currency rates. Foreign currency exchange controls imposed by jurisdictions in which the Company conducts business currently have no material impact on the Company's business or operations. The Company reports its exposure to foreign currency risks regularly to the Audit Committee of the Board of Directors.

Credit Risk

The Company's exposure to credit risk is managed through risk management policies and procedures that emphasize the quality and diversification of the Company's investment portfolio. The Company's policies establish limits on concentration by issuer, intercorporate relationships, rating, industry sector and geographic region. All personnel are subject to limits on their ability to commit the Company to credit instruments. Credit and commitment exposure is monitored through a reporting process that includes a formal quarterly review involving senior executives from the investment and corporate operations of the Company.

Pricing Risk

The process of pricing products requires estimates of many factors, including future investment yields, mortality and morbidity experience, expenses, rates of policy termination and taxes. Pricing risk is the risk that actual experience will not develop as estimated in pricing. While many products are designed to allow adjustments to premiums or benefits for experience variations, other products do not allow such adjustments.

The Company manages pricing risk by setting standards and guidelines that address pricing methods and assumption setting, pricing software, profit margin objectives, required scenario analysis, documentation and pricing approval processes. These standards and guidelines are intended to ensure that the level of risk borne by the Company is within acceptable limits. The pricing risk management process includes completion of an annual compliance self-assessment by all business units and the internal audit of business unit pricing on a rotating basis, with all units audited over a five-year cycle.

The chief financial officer of each business unit is responsible for approving the design and pricing of each product to ensure the Company's standards and guidelines are met. The Appointed Actuary must approve any pricing or product design change that introduces significant new risks or design features.

Claims Risk

The Company is subject to the risk of change in the health and life expectancy of policyholders. Claims trends are therefore monitored on an ongoing basis. Manulife Financial uses both its own and industry experience to develop estimates of future claims used in pricing and in setting actuarial liabilities. The Company's claims risk management includes establishing appropriate criteria to determine the insurability of applicants as well as managing the exposure to large claims. Underwriting standards have been established to manage the initial insurability of applicants and claims adjudication standards are in place to assist in managing group life and health claims. Renewal underwriting standards are in place for business that renews on a periodic basis. Underwriting standards are reviewed periodically and approved by the Appointed Actuary. Periodic reviews are also performed to ensure compliance with these standards.

Exposure to large claims is managed by establishing policy retention limits that vary by market and geographic location. Policy retention limits are reviewed periodically and approved by the Appointed Actuary. The Chief Executive Officer approves any increase in policy retention limits. Coverage in excess of the limits is reinsured with other companies. Reinsurance ceded does not discharge the Company's liability as the primary insurer. As a result of ceded reinsurance, actuarial liabilities were reduced by \$1.6 billion as at December 31, 1999. In addition to using reinsurance, the Company carries coverages to insure against catastrophic events that entail aggregate claims in excess of \$30 million to a maximum of \$150 million.

Derivatives

The Company uses derivatives, including foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and equity options, to manage exposure to interest rate, foreign currency and equity fluctuations. In limited circumstances and when opportunities exist within asset-liability matching parameters, the Company may use derivatives to achieve higher yields than those available from more traditional assets. The Company does not enter into derivative contracts for purposes unrelated to asset-liability management.

The Company has developed policies and procedures intended to limit the risk associated with the use of derivatives. These include specific limits on the size of derivative transactions and authorization limits for specific personnel. In order to manage the risk of counterparty default, the Company has established counterparty exposure limits in respect of both the notional amount outstanding under derivative transactions with a counterparty and the daily marked-to-market amount of the counterparty's exposure under derivative transactions with the Company. All derivative positions relative to these limits are monitored daily and reported to senior management

monthly. In addition, all counterparties are required to meet minimum credit-rating criteria. All limits contained in the Company's derivative policies are subject to regular review by senior management for continued appropriateness. The Company's total derivative exposure is reported regularly to the Board of Directors.

As at December 31, 1999, the Company had a \$7.1 billion notional amount of derivatives outstanding constituting a credit risk equivalent of \$324 million. This compares to a notional amount of \$6.5 billion and a credit risk equivalent amount of \$221 million as at December 31, 1998. See Notes 3(e) and 15 to the Financial Statements.

Other Operating Risks

Other operating risks faced by the Company include legal, tax, political, regulatory, market conduct, competitive and environmental risks. Some of these risks are more pronounced because the Company operates in a number of different jurisdictions. Senior management develops risk identification and compliance monitoring policies and processes and internal operational controls to manage these risks. Each business unit is then responsible for identifying risks and managing them day-to-day in accordance with these policies, processes and controls. Senior management is regularly apprised of the status of these risks, and the Audit Committee of the Board of Directors is updated at least quarterly. Internal auditors review the effectiveness of internal controls and report to senior management and to the Audit Committee semi-annually. External auditors review the effectiveness of internal controls to the extent necessary to conduct an audit of the annual financial statements and report to the Audit Committee annually on matters that come to their attention as a result of such audit.

Year 2000 Status

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred and management believes that its systems are year 2000 compliant, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved. The Company estimates the total cost of its Year 2000 program, excluding Manulife Century Life, will be approximately \$90 million, of which \$89 million has been incurred through December 31, 1999. Total Manulife Century Life costs are estimated to be \$6 million, of which \$6 million was incurred through December 31, 1999. The Year 2000 costs associated with Manulife Century Life will be shared by Manulife Financial and Daihyaku Mutual.

Compliance Management Program

The business operations of the Company involve a wide variety of activities which are subject to regulation in many jurisdictions. These include product design, sales and marketing practices, underwriting practices, asset management, financial reporting, employment practices and employee conduct.

The objective of the Company's compliance management program is to facilitate and monitor compliance functions consistently with corporate compliance policy, thereby providing assurance to senior management and the Board of Directors that the Company's regulatory obligations are being met. The program is intended to achieve awareness of all laws that affect the Company's businesses and the status of compliance with those laws. The program is supported by a reporting process, which establishes accountability for compliance throughout the Company. An independent review and assessment of compliance controls throughout the Company is coordinated by internal auditors.

Responsibility for Financial Reporting

The accompanying consolidated financial statements of Manulife Financial Corporation are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, or when estimates and judgement are required, management has selected those amounts which present the Company's financial position and results of operations in a manner most appropriate to the circumstances.

Appropriate systems of internal control, policies and procedures have been maintained, consistent with reasonable cost, to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's internal audit department.

The actuary appointed by the Board of Directors (the "Appointed Actuary") is responsible for ensuring that assumptions and methods used in the determination of actuarial and policy liabilities are appropriate to the circumstances and that such reserves will be adequate to meet the Company's future obligations under insurance and annuity contracts.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. These responsibilities are carried out primarily through an Audit Committee of unrelated directors appointed by the Board of Directors.

The Audit Committee meets periodically with management, the internal auditors, the external auditors and the Appointed Actuary to discuss internal control over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee reviews the consolidated financial statements and recommends them to the Board of Directors for approval. The Audit Committee also recommends to the Board of Directors and Shareholders the appointment of external auditors and approval of their fees.

The consolidated financial statements have been audited by the Company's external auditors, Ernst & Young LLP, in accordance with auditing standards generally accepted in Canada. Ernst & Young LLP has full and free access to the Audit Committee.

Dominic D'Alessandro

President and Chief Executive Officer

Peter Rubenovitch

Executive Vice President and Chief Financial Officer

Toronto, Canada

February 17, 2000

Appointed Actuary's Report to the Shareholders and Directors of Manulife Financial Corporation

I have valued the policy liabilities of Manulife Financial Corporation for its Consolidated Balance Sheets as at December 31, 1999 and 1998 and their change in the Consolidated Statements of Operations for the years then ended in accordance with actuarial practice generally accepted in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

Geoff I. Guy, F.C.I.A.

Executive Vice President and Appointed Actuary

Toronto, Canada

February 17, 2000

Auditors' Report to the Shareholders and Directors

We have audited the Consolidated Balance Sheets of Manulife Financial Corporation and the Consolidated Statements of Net Assets of its Segregated Funds as at December 31, 1999 and 1998 and the Consolidated Statements of Operations, Equity, Cash Flows and Changes in Net Assets of its Segregated Funds for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 1999 and 1998 and the results of the Company's operations and cash flows and the changes in the net assets of its Segregated Funds for the years then ended in accordance with accounting principles generally accepted in Canada including the accounting requirements of the Superintendent of Financial Institutions (Canada).

Ernst & Young LLP

Chartered Accountants

Toronto, Canada

February 17, 2000

Consolidated Balance Sheets

(Canadian \$ in millions)

As at December 31

1999

1998

ASSETS**Invested assets** (note 3)

Bonds	\$ 30,853	\$ 30,691
Mortgages	6,867	7,702
Stocks	4,832	4,042
Real estate	3,179	2,992
Policy loans	3,207	3,137
Cash and short-term investments	3,047	1,329
Other investments	1,180	499

Total invested assets

\$ 53,165 \$ 50,392

Other assets

Accrued investment income	\$ 727	\$ 732
Outstanding premiums	357	313
Future income taxes (note 5)	529	772
Miscellaneous	1,930	893

Total other assets

\$ 3,543 \$ 2,710

Total assets

\$ 56,708 \$ 53,102

Segregated fund net assets

\$ 49,055 \$ 38,200

LIABILITIES AND EQUITY

Actuarial liabilities (note 4)	\$ 39,748	\$ 38,738
Benefits payable and provision for unreported claims	1,522	1,441
Policyholder amounts on deposit	1,166	1,041
Deferred realized net gains (note 3)	2,266	2,735
Banking deposits	333	264
Other liabilities	3,152	1,392

\$ 48,187 \$ 45,611

Subordinated debt (note 6)

582 627

Non-controlling interest in subsidiaries

750 76

Trust preferred securities issued by subsidiaries (note 7)

735 783

Equity (note 8)

Participating policyholders' equity	61	—
Shareholders' equity		
Common shares (note 9)	628	—
Shareholders' retained earnings	5,765	—
Surplus	—	6,005

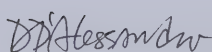
Total equity \$ 6,454 \$ 6,005

Commitments and contingencies (note 13)**Total liabilities and equity**

\$ 56,708 \$ 53,102

Segregated fund net liabilities

\$ 49,055 \$ 38,200



Dominic D'Alessandro
President and
Chief Executive Officer



Arthur R. Sawchuk
Chairman of the
Board of Directors

Consolidated Statements of Operations

(Canadian \$ in millions)

For the years ended December 31

1999

1998

Revenue

Premium income	\$ 8,672	\$ 5,696
Investment income (note 3(b))	4,376	4,123
Other revenue	1,015	792

Total revenue

\$ 14,063	\$ 10,611
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Policy benefits and expenses

To policyholders and beneficiaries

Death and disability benefits	\$ 2,136	\$ 2,331
Maturity and surrender benefits	2,064	1,986
Annuity payments	1,267	1,270
Net transfers to segregated funds	1,141	798
Increase in actuarial liabilities (note 4)	2,628	252
Policyholder dividends and experience rating refunds	738	604

General expenses	1,824	1,360
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Commissions	886	758
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Interest expense	179	158
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Premium taxes	84	74
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Non-controlling interest in subsidiaries	(114)	7
--	-------	---

Trust preferred securities issued by subsidiaries	62	62
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Total policy benefits and expenses

\$ 12,895	\$ 9,660
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Income before income taxes

\$ 1,168	\$ 951
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Income taxes (note 5)	(302)	(241)
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Net income

\$ 866	\$ 710
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Net loss attributed to:

Participating policyholders (after demutualization)	\$ (8)	\$ —
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Net income attributed to:

Mutual operations (prior to demutualization)	\$ 607	\$ 710
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Shareholders (after demutualization)	267	—
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Adjusted shareholders' net income

\$ 874	\$ 710
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Net income

\$ 866	\$ 710
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Earnings per share (note 10)

Consolidated Statements of Equity

(Canadian \$ in millions)

For the years ended December 31

	Surplus	Participating Policyholders	Shareholders	1999	1998
Operating retained earnings					
Balance, January 1	\$ 5,762	\$ —	\$ —	\$ 5,762	\$ 5,052
Conversion costs	(31)	—	—	(31)	—
Net income as a mutual operation	607	—	—	607	710
Balance, September 23, 1999 as restated on demutualization	\$ 6,338	\$ —	\$ —	\$ 6,338	\$ 5,762
Transfers to participating policyholders' equity	(69)	69	—	—	—
Transfers to shareholders' equity	(5,575)	—	5,575	—	—
Cash distributions by Manufacturers Life to certain participating policyholders	(694)	—	—	(694)	—
Purchase and cancellation of common shares (note 9)	—	—	(120)	(120)	—
Net income (loss) as a stock company	—	(8)	267	259	—
Balance, December 31	\$ —	\$ 61	\$ 5,722	\$ 5,783	\$ 5,762
Currency translation account					
Balance, January 1	\$ 243	\$ —	\$ —	\$ 243	\$ 16
Change during the year as a mutual company	(116)	—	—	(116)	227
Transfer to shareholders' equity on demutualization	(127)	—	127	—	—
Change during the year as a stock company	—	—	(84)	(84)	—
Balance, December 31	\$ —	\$ —	\$ 43	\$ 43	\$ 243
Retained earnings	\$ —	\$ 61	\$ 5,765	\$ 5,826	\$ 6,005
Common shares					
Balance, January 1	\$ —	\$ —	\$ —	\$ —	\$ —
Issue of common shares (note 9)	—	—	694	694	—
Initial public offering costs (note 9)	—	—	(58)	(58)	—
Purchase and cancellation of common shares (note 9)	—	—	(8)	(8)	—
Balance, December 31	\$ —	\$ —	\$ 628	\$ 628	\$ —
Total equity	\$ —	\$ 61	\$ 6,393	\$ 6,454	\$ 6,005

Consolidated Statements of Cash Flows

(Canadian \$ in millions)	For the years ended December 31	1999	1998
Operating activities			
Operating cash inflows			
Premiums and annuity considerations	\$ 7,955	\$ 5,822	
Investment income received	3,530	3,418	
Other revenue	1,015	792	
Total operating cash inflows	\$ 12,500	\$ 10,032	
Operating cash outflows			
Benefit payments	\$ 5,334	\$ 5,556	
Insurance expenses and taxes (notes 5 and 6)	2,890	2,540	
Net transfers to segregated funds	1,141	798	
Dividends paid to policyholders	738	604	
Change in other assets and liabilities	(502)	545	
Total operating cash outflows	\$ 9,601	\$ 10,043	
Cash provided by (used in) operating activities	\$ 2,899	\$ (11)	
Investing activities			
Purchases and mortgage advances	\$ (32,354)	\$ (27,679)	
Disposals and repayments	30,433	27,317	
Cash used in investing activities	\$ (1,921)	\$ (362)	
Financing activities			
Funds repaid	\$ —	\$ (29)	
Borrowed funds	51	—	
Increase in repurchase agreements and securities sold but not yet purchased	810	—	
Issue of common shares (note 9)	694	—	
Payments to certain policyholders and underwriters upon demutualization (note 8)	(735)	—	
Purchase and cancellation of common shares (note 9)	(128)	—	
Cash provided by (used in) financing activities	\$ 692	\$ (29)	
Cash and short-term investments			
Increase (decrease) during the year	\$ 1,670	\$ (402)	
Balance, January 1	1,140	1,542	
Balance, December 31	\$ 2,810	\$ 1,140	
Composition of cash and short-term investments			
Beginning of year			
Gross cash and short-term investments	\$ 1,329	\$ 1,842	
Net payments in transit, included in other liabilities	(189)	(300)	
Net cash and short-term investments, January 1	\$ 1,140	\$ 1,542	
End of year			
Gross cash and short-term investments	\$ 3,047	\$ 1,329	
Net payments in transit, included in other liabilities	(237)	(189)	
Net cash and short-term investments, December 31	\$ 2,810	\$ 1,140	

Segregated Funds

Consolidated Statements of Net Assets

(Canadian \$ in millions)	As at December 31	1999	1998
	Investments, at market values		
	Bonds	\$ 3,188	\$ 3,909
	Mortgages	—	5
	Stocks	42,903	32,142
	Real estate	7	15
	Cash and short-term investments	2,948	2,101
	Accrued investment income	24	22
	Other assets (liabilities), net	(15)	6
	Total segregated fund net assets, December 31	\$ 49,055	\$ 38,200
	Composition of segregated fund net assets:		
	Held by Policyholders	\$ 48,993	\$ 38,055
	Held by the Company	62	145
	Total segregated fund net assets, December 31	\$ 49,055	\$ 38,200

Segregated Funds

Consolidated Statements of Changes in Net Assets

(Canadian \$ in millions)	For the years ended December 31	1999	1998
	Additions		
	Deposits from policyholders	\$ 10,709	\$ 8,846
	Realized and unrealized investment gains	6,199	2,604
	Interest and dividends	1,773	1,161
	Net transfers from general fund	1,141	798
	Currency revaluation	(2,356)	1,968
	Total additions	\$ 17,466	\$ 15,377
	Deductions		
	Payments to policyholders	\$ 5,982	\$ 3,759
	Management and administrative fees	629	436
	Total deductions	\$ 6,611	\$ 4,195
	Net addition to segregated funds for the year	\$ 10,855	\$ 11,182
	Segregated fund net assets, January 1	38,200	27,018
	Segregated fund net assets, December 31	\$ 49,055	\$ 38,200

Notes to Consolidated Financial Statements

(Canadian \$ in millions unless otherwise stated)

• NOTE 1 Nature of Operations and Significant Accounting Policies

Manulife Financial Corporation ("Manulife Financial," the "Company") is a publicly traded stock life insurance company and the insurance holding company of The Manufacturers Life Insurance Company ("Manufacturers Life") which was organized as a mutual life insurance company until September 23, 1999, on which date it demutualized (note 8). The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds to individual and group customers in Canada, the United States and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada, to institutional customers.

Manulife Financial is registered under the Insurance Companies Act (Canada) ("ICA"), which requires that financial statements be prepared in accordance with accounting principles generally accepted in Canada, including the requirements of the Superintendent of Financial Institutions (Canada) ("OSFI"), ("GAAP"). None of the accounting requirements of OSFI is an exception to accounting principles generally accepted in Canada.

The preparation of financial statements, in conformity with GAAP, requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent

assets and liabilities as at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimation processes are related to the determination of actuarial liabilities. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

The significant accounting policies used in the preparation of these consolidated financial statements are summarized below:

a) Basis of consolidation

Manulife Financial consolidates the financial statements of all subsidiary companies and eliminates on consolidation all significant inter-company balances and transactions. The equity method is used to account for investments over which the Company exerts significant influence. Gains and losses on sales of these investments are included in income when realized, while expected losses on other than temporary impairments are recognized immediately.

b) Invested assets

Under GAAP for life insurance companies, the invested assets held by the Company are accounted for through a variety of methods. These are summarized as follows:

	Carrying value	Recognition of realized gains and losses on normal business activity	Recognition of impairment
BONDS	At amortized cost less an allowance for specific losses.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the bond sold.	Impairment is recognized on a specific bond when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. In such cases, the bond is written down to its net realizable value and the charge is recorded in income in the period the impairment is recognized.
MORTGAGES AND LOANS	At amortized cost less repayments and an allowance for specific losses.	Deferred and brought into income over the lesser of 20 years or the remaining term to maturity of the mortgage or loan sold.	Impairment is recognized on a specific mortgage or loan when there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Such impaired mortgages and loans are carried at their estimated realizable value, determined for each asset by discounting the expected future cash flows at the original interest rate inherent in the asset. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, estimated realizable amounts are measured at either the fair value of any security underlying the mortgage or loan, net of expected costs of realization and any amounts legally required to be paid to borrowers, or at observable market prices for the mortgages or loans. Mortgages and loans are classified as impaired whenever payments are 90 days or more in arrears. At the time of foreclosure, mortgages are written down to net realizable value. Declines in the net realizable value of foreclosed properties are charged to income immediately.
STOCKS	On a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum.	Deferred and brought into income at the rate of 15% of unamortized deferred realized gains and losses each year.	Specific stocks are written down to market value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary.
REAL ESTATE	On a moving average market basis whereby carrying values are adjusted towards market value at 10% per annum.	Deferred and brought into income at the rate of 10% of unamortized deferred realized gains and losses each year.	Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary.
POLICY LOANS	At their unpaid balance.	Not applicable. Fully secured by the cash surrender value of the policies on which the loans are made.	Fully secured by the cash surrender value of the policies on which the loans are made.

On disposition of an impaired asset, the allowance is written off against the related assets. Once established, an allowance against temporary impairment of bonds or mortgages is reversed only if the conditions that caused the impairment no longer exist.

In addition to specific allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities.

c) Actuarial liabilities

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future policy benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies in force. The Company's Appointed Actuary is responsible for determining the amount of actuarial liabilities that must be set aside each year to ensure that sufficient funds will be available in the future to meet these obligations. The valuation methods employed by the Appointed Actuary are based on standards established by the Canadian Institute of Actuaries. In accordance with actuarial practices generally accepted in Canada, liabilities have been determined using the policy premium method and the cash flow valuation method.

d) Other investments

Included in other investments are investments in oil and gas properties, equipment leases, limited partnerships, commercial loans, investments in segregated and mutual funds and derivative assets.

e) Miscellaneous assets

Included in miscellaneous assets are amounts due from reinsurers and capital assets. The latter are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from two to ten years.

f) Segregated funds

The Company manages a number of segregated funds on behalf of policyholders. The investment returns on these funds accrue directly to the policyholders, with the Company assuming no risk. Consequently, these funds are segregated and presented separately from the general fund of the Company. Income earned from fund management fees is included in other revenue in the general fund. Investments held in segregated funds are carried at market value.

The Company also provides minimum guarantees on individual variable life and annuity contracts. These include minimum death benefit guarantees, minimum maturity value guarantees and minimum income benefit guarantees. The liability associated with these minimum guarantees is recorded in actuarial liabilities in the general fund of the Company.

g) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates in effect at the Consolidated Balance Sheet dates. Revenue and expenses are translated at the average exchange rates prevailing during the year. Unrealized foreign currency translation gains and losses on investments in self-sustaining operations are recorded in equity. Translation gains and losses on disposition of investments in self-sustaining operations are included in income.

h) Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, the provision for income taxes is calculated based on income tax laws and income tax rates in effect as at the Consolidated

Balance Sheet dates. The income tax provision is comprised of two components: current income taxes and future income taxes. Current income taxes are amounts expected to be payable or recoverable as a result of operations in the current year. Future income taxes arise from changes during the year in cumulative temporary differences between the accounting carrying value of assets and liabilities and their respective tax bases. The future income tax asset is recognized to the extent that future realization of the tax benefit is more likely than not, with a valuation allowance for the excess.

i) Pensions and other post-employment benefits

The Company maintains a number of pension plans for its eligible employees and agents. Assets for each plan are held by independent trustees and are carried at market-related values.

The defined contribution plans were established in 1998 and provide pension benefits based on the accumulated contributions and fund earnings. The cost of defined contribution benefits is the required contribution provided by the Company in exchange for the services of employees rendered during the period.

The defined benefit plans provide pension benefits based on length of service and final average earnings. The cost of defined benefit pension benefits is recognized using the projected benefit method pro-rated on services. Experience gains and losses are amortized to income over the estimated average remaining service lives of plan members.

The Company also provides supplementary pension, health, dental and life insurance benefits to qualifying employees upon retirement. The estimated present value of these benefits is charged to earnings over the employees' years of service to their date of full entitlement.

j) Derivatives

The Company uses derivatives to manage exposures to foreign currency, interest rate and other market risks arising from its on-balance sheet financial instruments. These derivatives are designated and effective as hedges, as there is a high correlation between changes in market value of the derivative and the underlying hedged item at inception and over the life of the hedge. Realized and unrealized gains and losses on these derivatives are accounted for on the same bases as the underlying assets and liabilities. Realized and unrealized gains and losses on derivative transactions established as hedges but no longer considered hedges are included in income from the date at which they are no longer considered to be hedges. Derivative income and expenses related to invested assets and financial liabilities are included in investment income and interest expense, respectively, in the Consolidated Statements of Operations. Cash flows relating to derivatives associated with invested assets and financial liabilities are included in the Consolidated Statements of Cash Flows on a basis consistent with the cash flows from the underlying invested assets and financial liabilities. Derivative assets and liabilities are included in other investments and other liabilities, respectively, and deferred realized net gains are presented as such in the Consolidated Balance Sheets.

k) Goodwill

Goodwill represents the excess of the cost of businesses acquired over fair values assigned to the related identifiable net assets and is amortized on a straight-line basis over the expected benefit periods of up to 20 years. Unamortized goodwill is reviewed periodically for impairment by considering factors such as returns of the related business, taking into account the risk associated with the investment. When goodwill is determined to be impaired, a charge is taken to income immediately.

1) Premium income and related expenses

Gross premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due.

When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

• NOTE 2 | Changes in Accounting Policies**a) Income taxes**

In December 1997, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3465, "Income Taxes," effective for fiscal years commencing January 1, 2000. This standard requires the use of the liability method of accounting for income taxes and changes the focus from income statement timing differences to balance sheet temporary differences. The Company adopted the recommendations of this standard effective for its fiscal year commencing January 1, 1999. The impact of this change was not material to these consolidated financial statements.

b) Pensions and other post-employment benefits

In March 1999, The CICA issued Handbook Section 3461, "Employee Future Benefits," effective for fiscal years commencing January 1, 2000. This standard requires employee future benefits to be accounted for on an accrual basis and pension obligations to be discounted using a market rate of interest. The Company adopted the recommendations of this standard effective for its fiscal year commencing January 1, 1999. The impact of this change was not material to these consolidated financial statements.

• NOTE 3 | Invested Assets and Income**a) Invested assets**

As at December 31 1999	Carrying value	Fair value	Unrealized gains	Unrealized losses	Deferred realized net gains (losses)	Total realized and unrealized gains
Bonds (fixed maturity)						
Canadian government	\$ 7,182	\$ 7,499	\$ 470	\$ (153)	\$ 239	\$ 556
Foreign governments	5,076	4,983	59	(152)	169	76
Corporate	16,896	16,676	401	(621)	562	342
Mortgage-backed securities	1,699	1,652	10	(57)	56	9
Mortgages	6,867	6,937	200	(130)	50	120
Stocks	4,832	6,642	2,022	(212)	1,126	2,936
Real estate	3,179	3,468	342	(53)	66	355
Policy loans	3,207	3,207	—	—	—	—
Cash and short-term investments	3,047	3,047	—	—	—	—
Other investments	1,180	1,196	37	(21)	(2)	14
Total invested assets	\$ 53,165	\$ 55,307	\$ 3,541	\$ (1,399)	\$ 2,266	\$ 4,408
1998						
Bonds (fixed maturity)						
Canadian government	\$ 6,951	\$ 8,142	\$ 1,194	\$ (3)	\$ 326	\$ 1,517
Foreign governments	4,725	5,068	349	(6)	222	565
Corporate	17,244	18,539	1,541	(246)	809	2,104
Mortgage-backed securities	1,771	1,773	39	(37)	83	85
Mortgages	7,702	8,223	547	(26)	45	566
Stocks	4,042	5,171	1,336	(207)	1,202	2,331
Real estate	2,992	3,087	209	(114)	45	140
Policy loans	3,137	3,137	—	—	—	—
Cash and short-term investments	1,329	1,329	—	—	—	—
Other investments	499	531	40	(8)	3	35
Total invested assets	\$ 50,392	\$ 55,000	\$ 5,255	\$ (647)	\$ 2,735	\$ 7,343

Fair values are determined with reference to quoted market prices where available. Fair values of mortgages reflect changes in interest rates which have occurred since the mortgages were originated and changes in the credit-worthiness of individual borrowers. For fixed-rate mortgages, fair value is determined by discounting the expected future cash flows at market interest rates for mortgages with similar credit risks. Fair values of real estate are

determined by a combination of internal and external appraisals utilizing expected net cash flows discounted at market interest rates. Fair values of policy loans, cash and short-term investments and other investments approximate their carrying values due to their short-term nature.

Foreclosed properties of \$92 are included in real estate at December 31, 1999 (1998 – \$196).

The following table presents the carrying value and fair value of bonds, based on period to maturity:

Bonds

As at December 31	1999		1998	
	Carrying value	Fair value	Carrying value	Fair value
Maturity				
Due in one year or less	\$ 2,100	\$ 2,110	\$ 1,515	\$ 1,530
Due after one year				
through five years	8,352	8,257	7,712	7,884
Due after five years				
through ten years	5,617	5,492	6,420	6,704
Due after ten years	13,085	13,299	13,273	15,631
Mortgage-backed securities	1,699	1,652	1,771	1,773
Total	\$ 30,853	\$ 30,810	\$ 30,691	\$ 33,522

The following table presents the carrying value and fair value of mortgages, by type of property:

Mortgages

As at December 31	1999		1998	
	Carrying value	Fair value	Carrying value	Fair value
Residential	\$ 1,369	\$ 1,384	\$ 1,600	\$ 1,714
Office	1,594	1,610	1,719	1,849
Retail	2,036	2,080	2,344	2,490
Industrial	1,618	1,606	1,804	1,913
Other	250	257	235	257
Total	\$ 6,867	\$ 6,937	\$ 7,702	\$ 8,223

The carrying value of government-insured loans was 4.7% of the total carrying value of the mortgage portfolio as at December 31, 1999 (1998 – 4.8%) and the value of privately-insured mortgages was 0.03% of the total mortgage portfolio as at December 31, 1999 (1998 – 0.1%).

b) Investment income

For the years ended December 31	Gross investment income	Provision for impairment, net (note 3(e))	Amortization of realized and unrealized gains (losses)	Total	Yield (%)
1999					
Bonds	\$ 2,193	\$ (101)	\$ 191	\$ 2,283	7.97
Mortgages	621	24	11	656	9.43
Stocks	122	–	524	646	23.31
Real estate	230	21	38	289	10.05
Policy loans	274	–	–	274	8.69
Cash and short-term investments	84	–	–	84	3.34
Other investments	123	(2)	7	128	N/A
Currency	–	–	16	16	N/A
Total	\$ 3,647	\$ (58)	\$ 787	\$ 4,376	9.02
1998					
Bonds	\$ 2,164	\$ (107)	\$ 231	\$ 2,288	8.09
Mortgages	662	23	10	695	9.39
Stocks	90	–	386	476	19.76
Real estate	199	23	13	235	8.57
Policy loans	255	–	–	255	8.57
Cash and short-term investments	88	–	–	88	3.94
Other investments	77	–	(7)	70	N/A
Currency	–	–	16	16	N/A
Total	\$ 3,535	\$ (61)	\$ 649	\$ 4,123	8.77

Yields are based on total investment income divided by the average carrying value of assets plus accrued income less net deferred gains.

c) Securities lending

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for periods of time. Collateral, which exceeds the market value of the loaned securities, is lodged by the borrower with the Company and retained by the Company until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value fluctuates. As at December 31, 1999, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately \$1,423 and \$1,410, respectively.

d) Mortgage securitization

The Company has sold for cash, with limited recourse, commercial mortgages. The maximum recourse on these mortgages is less than 10% of the proceeds. When the mortgages are sold, they are removed from the Company's balance sheet and the amortized gains are recognized in net investment income. As at December 31, 1999, outstanding balances of sold mortgages with limited recourse was \$591 (1998 – \$296).

e) Credit risk

Credit risk is the risk that a party to a financial instrument, such as a mortgage borrower, will fail to fully honour its financial obligations to the Company. Credit risks are primarily associated with investment, derivative and reinsurance counterparties.

The Company has provided for credit risks by establishing specific allowances against the carrying value of the impaired assets in the Consolidated Balance Sheets. In addition to specific allowances, the Company provides for potential future impairments by reducing investment yields assumed in the calculation of actuarial liabilities (note 4(c)). The carrying value of impaired assets was as follows:

As at December 31	Gross amount	Allowance	Carrying value
1999			
Mortgages	\$ 133	\$ 49	\$ 84
Other impaired assets	195	83	112
Total	\$ 328	\$ 132	\$ 196
1998			
Mortgages	\$ 241	\$ 88	\$ 153
Other impaired assets	138	89	49
Total	\$ 379	\$ 177	\$ 202

The changes during the year in respect of the specific allowance for impairment were as follows:

Specific allowance for impairment	1999	1998
Balance, January 1	\$ 177	\$ 101
Provisions during the year	58	61
Write-offs, net of recoveries	(103)	15
Balance, December 31	\$ 132	\$ 177

In addition to specific allowances for existing impairments, actuarial liabilities include an allowance for future impairments. As at December 31, 1999, the provision for future credit losses included in actuarial liabilities was \$1,207 (1998 – \$1,102).

Concentrations of credit risk

The Company's exposure to credit risk is managed through risk management policies and procedures with emphasis on the quality of the investment portfolio together with maintenance of issuer, industry and geographic diversification standards.

At December 31, 1999, 91% of bonds (1998 – 93%) were rated at investment grade "BBB" or higher, and 82% (1998 – 83%) were rated "A" or higher. Government bonds represented 40% (1998 – 39%) of the bond portfolio. The Company's highest exposure to a single non-government issuer was \$678 (1998 – \$707). Mortgages and real estate are diversified geographically and by property type. Ontario, Canada was the largest concentration of mortgages and real estate, with \$3,320 (1998 – \$3,557) of the total portfolio. Income-producing commercial office properties were the largest concentration of real estate with \$2,108 (1998 – \$2,031) of the real estate portfolio.

The Company's exposure to loss on derivatives is limited to the extent that default by counterparties to these contracts results in the loss of any gains that may have accrued. All contracts are held with counterparties rated "A" or higher, with 86% as at December 31, 1999 (1998 – 98%) of the exposed amount being with counterparties rated "AA" or higher. The largest single counterparty exposure at December 31, 1999 was \$39 (1998 – \$44).

• NOTE 4 | Actuarial Liabilities

a) Composition

Actuarial liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated

future benefits, policyholder dividends, taxes (other than income taxes) and expenses on policies inforce. The composition of actuarial liabilities by line of business and geographic territory was as follows:

As at December 31	Individual life insurance				Total
	Participating	Non-participating	Annuities and pensions	Other insurance liabilities	
1999					
Canada	\$ 2,322	\$ 1,437	\$ 11,245	\$ 1,590	\$ 16,594
United States	9,836	2,720	6,280	938	19,774
International	2,016	635	707	22	3,380
Total	\$ 14,174	\$ 4,792	\$ 18,232	\$ 2,550	\$ 39,748
1998					
Canada	\$ 2,077	\$ 1,130	\$ 11,612	\$ 1,060	\$ 15,879
United States	9,652	2,945	6,696	884	20,177
International	1,881	33	747	21	2,682
Total	\$ 13,610	\$ 4,108	\$ 19,055	\$ 1,965	\$ 38,738

Upon demutualization, Manufacturers Life was required, under the ICA, to maintain two separate accounts within its general fund: one for its participating policies and one for its non-participating policies. For participating policies inforce as at September 23, 1999, separate sub-accounts were

established within the participating account. These sub-accounts permit this participating business to be operated as separate "closed blocks" of business.

As at December 31, 1999, 76% of actuarial liabilities related to the participating policyholders' account are included in the closed blocks.

b) Assets backing liabilities and equity

The Company has established a target invested asset portfolio mix which takes into account the risk attributes of the liabilities supported by the assets, expectations of market performance, and a generally conservative investment philosophy. Assets are segmented and matched to liabilities with similar underlying characteristics by product line and major currency. Liabilities with rate and term guarantees, such as annuities and pensions, are predominantly backed by fixed-rate instruments such as bonds and commercial and mortgage loans. Insurance products, such as participating whole life insurance, are backed by a broader range of asset classes. The Company's equity is primarily invested in North American stocks, bonds and real estate and international securities.

Changes in the fair value of assets backing actuarial liabilities would have a limited impact on the Company's equity as it would be offset by a corresponding change in the fair value of the liabilities. The fair value of assets backing actuarial liabilities at December 31, 1999 was estimated at \$40,631 (1998 – \$42,100).

A change in the fair value of assets supporting capital and other liabilities results in a corresponding change in equity when recognized, offset by changes in related liabilities when recognized. The fair value of assets backing capital and other liabilities as at December 31, 1999 was estimated at \$18,218 (1998 – \$15,600).

The carrying value of total assets supporting actuarial liabilities, other liabilities and capital and equity was as follows:

As at December 31 1999	Individual life insurance		Annuities and pensions	Other	Capital	Total
	Participating	Non-participating				
Assets						
Bonds	\$ 6,448	\$ 2,462	\$ 12,934	\$ 6,546	\$ 2,463	\$ 30,853
Mortgages	941	260	3,845	1,511	310	6,867
Stocks	1,865	182	71	688	2,026	4,832
Real estate	1,088	41	37	349	1,664	3,179
Other	3,832	1,847	1,345	2,645	1,308	10,977
Total	\$ 14,174	\$ 4,792	\$ 18,232	\$ 11,739	\$ 7,771	\$ 56,708
1998						
Assets						
Bonds	\$ 6,133	\$ 2,749	\$ 12,964	\$ 6,007	\$ 2,838	\$ 30,691
Mortgages	916	386	4,537	1,461	402	7,702
Stocks	1,574	113	55	668	1,632	4,042
Real estate	990	50	38	274	1,640	2,992
Other	3,997	810	1,461	504	903	7,675
Total	\$ 13,610	\$ 4,108	\$ 19,055	\$ 8,914	\$ 7,415	\$ 53,102

Other includes insurance and non-insurance liabilities and non-controlling interest in subsidiaries. Capital represents total equity, subordinated debt and trust preferred securities issued by subsidiaries.

As at December 31, 1999, 76% of assets related to the participating policyholders' account are included in the closed blocks.

The net deferred realized gains taken into account in the computation of actuarial liabilities as at December 31, 1999 were \$1,695 (1998 – \$2,206).

c) Significant reserve assumptions

The preparation of financial statements involves the use of estimates and assumptions; however, actual results may differ from those estimates. The most significant estimation processes for insurance companies are related to the determination of actuarial liabilities.

Actuarial liabilities have two major components, a best estimate and a provision for adverse deviation. In conjunction with prudent business practices to manage both business and investment risks, the selection and

monitoring of appropriate assumptions is designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

Best estimate reserve assumptions

In the computation of actuarial liabilities, best estimate reserve assumptions are made. Assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity, investment returns, rates of policy termination, operating expenses and certain taxes. Actuarial assumptions may be subject to change in the future. Actual experience is monitored regularly against the assumptions to ensure that the assumptions remain appropriate. Assumptions are discussed in more detail in the following table.

Nature of factor and assumption methodology

MORTALITY AND MORBIDITY	Mortality relates to the occurrence of death. Mortality assumptions are based on past and emerging Company and industry experience. Assumptions are differentiated by sex, underwriting class and policy type. Morbidity relates to the occurrence of accidents and sickness. Morbidity assumptions are based on Company and industry experience.
INVESTMENT RETURN	The Company matches assets and liabilities by business segment, using investment objectives that are appropriate for each line of business. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Company's investment policy in order to determine expected rates of return on these assets for all future years. Investment return assumptions include expected future asset defaults. Asset defaults are projected based on both past Company and industry experience and specific reviews of the current investment portfolio.
POLICY TERMINATIONS	Lapse relates to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are based on the Company's experience adjusted for expected future conditions. Assumptions reflect differences in geographic markets and lapse patterns for different types of contracts.

Risk management and sensitivity to change

The Company establishes appropriate underwriting standards to determine the insurability of applicants. Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits which vary by market and geographic location. Policies in excess of the limits are reinsured with other companies. The maximum exposure on any one life policy as at December 31, 1999 was \$22 (1998 – \$23). In addition, the Company carries coverage that insures against a catastrophic event that could entail aggregate claims in excess of \$30 but less than \$150 as at December 31, 1999 and 1998.

Mortality is monitored monthly and recent experience has been favourable when compared to the Company's assumptions. Morbidity is monitored monthly and recent experience has been consistent with the Company's assumptions.

The Company's policy of closely matching cash flows on the assets with those for the corresponding liabilities reduces the Company's exposure to future changes in interest rates. Derivative instruments are used where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes. The valuation interest rate assumes a declining reinvestment rate in order to incorporate reinvestment risk.

For the Company's annuity business, an immediate and parallel decrease in interest rates of 1% across all maturities in Canada and the United States would decrease net income and equity by \$4 as at December 31, 1999 (1998 – increase of \$5).

The exposure to asset default is managed by policies and procedures which limit concentrations by issuer, connections, rating, sector and geographic region.

Recent mortgage default experience has continued to be favourable when compared to the Company's assumptions. Recent bond default experience has been consistent with the Company's assumptions.

The Company designs its products in order to minimize financial exposure to lapse and surrender risk. In addition, the Company monitors lapse and surrender experience monthly.

Generally, recent lapse rates have been lower than expected when compared to assumptions used in the computation of actuarial liabilities, with higher surrenders experienced on certain pension and deferred annuity business.

In addition to the above, assumptions are made for expenses and taxes (other than income taxes). Policy maintenance expenses are derived from the Company's internal cost studies, projected into the future with an allowance for inflation. Explicit assumptions are made for future premium taxes and other non-income related taxes.

Provision for adverse deviation

The basic assumptions made in establishing actuarial liabilities are best estimates for a range of possible outcomes. To recognize the uncertainty in establishing these best estimate reserve assumptions, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

The impact of these margins is to increase actuarial liabilities and decrease the income that would be recognized at inception of the policy. Minimum conditions are prescribed by the Canadian Institute of Actuaries for determining margins related to interest risk. For other risks which are not specifically addressed by the standard, a range is defined as 5% to 20% of the expected experience assumption. The Company uses assumptions at the conservative end of the range, taking into account the risk profiles of the business.

d) Risk management

In addition to risks related to reserve assumptions, the Company is also exposed to the following risks:

Foreign currency risk

The Company's strategy of matching the currency of its assets with the currency of the liabilities these assets support results in minimal financial exposure related to foreign currency fluctuations on assets backing actuarial liabilities.

The Company also generally matches the currency of its equity with the currency of its liabilities except for approximately \$650 at December 31, 1999 (1998 – \$600) which was invested in a diversified basket of international currencies. Aligning the currency mix reduces the sensitivity of the Company's capital ratios to exchange rate fluctuations.

As at December 31, 1999, assets exceeded liabilities denominated in foreign currencies by approximately \$3,900 (1998 – \$3,300), of which \$3,100 at December 31, 1999 (1998 – \$2,900) related to the United States dollar. The impact of a 100 basis point increase in the Canadian dollar relative to the United States dollar would be a \$10 decrease in net income for the year ended December 31, 1999 (1998 – \$8) and a \$56 decrease in equity as at December 31, 1999 (1998 – \$49).

Liquidity risk

Liquidity risk is the risk that the Company will not have access to sufficient funds to meet its liabilities as they become due. Certain of the Company's policies have features that allow them to be terminated at short notice, creating a potential liquidity exposure. In the normal course of business, the Company matches the maturity of invested assets to the maturity of actuarial liabilities.

The Company had available liquidity, net of policy cash values that can be surrendered at short notice, of \$21,660 as at December 31, 1999 (1998 – \$22,876).

Reinsurance risk

In the normal course of business, the Company limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. In order to minimize losses from reinsurer insolvency, the Company monitors the concentration of credit risk both geographically and with any one reinsurer. In addition, the Company selects reinsurers with high credit ratings.

As a result of ceded reinsurance, actuarial liabilities have been reduced by \$1,553 at December 31, 1999 (1998 – \$1,433).

The effect of reinsurance on premium income was as follows:

For the years ended December 31	1999	1998
Direct premium income	\$ 7,410	\$ 5,546
Reinsurance assumed	1,780	874
Reinsurance ceded	(518)	(724)
Total premium income	\$ 8,672	\$ 5,696

• NOTE 5 | Income Taxes

The effective income tax rate for the consolidated provision for income taxes varies from the income taxes computed at the Canadian statutory tax rate of 43% at December 31, 1999 (1998 – 43%) for the following reasons:

Reconciliation of income tax expense

For the years ended December 31	1999	1998
Income tax at Canadian statutory rates	\$ 502	\$ 409
Increase (decrease) in tax due to:		
Tax-exempt investment income	(69)	(71)
Differences in tax rates in foreign jurisdictions	(110)	(69)
Recognition of tax benefit from prior years	(27)	(33)
Other	6	5
Income taxes	\$ 302	\$ 241

Components of income tax expense included in the Consolidated Statements of Operations are:

For the years ended December 31	1999	1998
Canadian income tax expense (benefit):		
Current taxes	\$ 62	\$ 67
Future taxes	(32)	49
	\$ 30	\$ 116
Foreign income tax expense (benefit):		
Current taxes	\$ (34)	\$ 79
Future taxes	306	46
	\$ 272	\$ 125
Income tax expense	\$ 302	\$ 241

e) Change in actuarial liabilities

Change in actuarial liabilities during the year was caused by the following business activities and changes in actuarial estimates:

For the years ended December 31	1999	1998
Balance, January 1	\$ 38,738	\$ 37,227
Normal change		
New policies	1,705	769
Inforce	160	(541)
Changes in methods and assumptions	(3)	24
Changes due to assumption		
reinsurance agreement	766	–
Currency impact	(1,618)	1,259
Balance, December 31	\$ 39,748	\$ 38,738

During the year reserves were released to reflect improved mortality in several business units, and strengthened to reflect methodology and professional standard changes for universal life policies, increased provisions related to certain savings products, and an updated assessment of long-term credit risks for certain asset classes. The overall impact of these, and other less material changes, was a reserve release of \$3.

Provisions for unreported claims are included with policy benefits in the course of settlement on the Consolidated Balance Sheets.

The amount of income taxes paid in cash during the year ended December 31, 1999 was \$61 (1998 – \$170).

Undistributed earnings of non-Canadian subsidiaries may be taxed upon repatriation to Canada. The Company has recognized a future tax liability on these undistributed earnings to the extent that management expects it will be incurred on earnings repatriated in the foreseeable future.

The following table presents future income taxes in total, and the principal components:

As at December 31	1999	1998
Future income tax asset:		
Actuarial liabilities	\$ 604	\$ 849
Gains on sale of invested assets	421	516
Other	173	38
	\$ 1,198	\$ 1,403
Valuation allowance	(245)	(272)
Future income tax asset	\$ 953	\$ 1,131
Future income tax liability:		
Real estate	\$ (232)	\$ (164)
Securities	(129)	(135)
Other	(63)	(60)
Future income tax liability	\$ (424)	\$ (359)
Net future income tax asset	\$ 529	\$ 772

As at December 31, 1999, Manulife Financial and its subsidiaries have approximately \$401 (1998 – \$365) of tax loss carryforwards available, none of which expire in 2000. These tax loss carryforwards can be applied against future profits of the companies that have incurred those losses.

• NOTE 6 Subordinated Debt

As at December 31	1999	1998
7% U.S. dollar	\$ 361	\$ 385
8¼% U.K. pound	221	242
Total	\$ 582	\$ 627
Fair value	\$ 588	\$ 690

The fair value of subordinated debt is determined by reference to current market prices. Both issues form part of the Company's regulatory capital. To reduce exposure to foreign currency fluctuations, derivatives are used to convert the U.K. pound debt into Canadian and U.S. dollar liabilities.

The cash amount of interest paid during the year ended December 31, 1999 was \$48 (1998 – \$48).

a) 7% U.S. dollar subordinated notes

During 1995, the Company issued U.S. \$250 (\$341) in 7% subordinated notes due April 15, 2005. This debt was issued as a private placement under Rule 144A of the Securities Act (United States).

b) 8¼% U.K. pound subordinated notes

On January 1, 1996, on amalgamation with North American Life Assurance Company, the Company assumed £100 (\$202) in 8¼% subordinated notes redeemable on November 17, 2003. Concurrently, £5 (\$10) of debt, which was held by the Company, was extinguished.

• NOTE 7 Trust Preferred Securities Issued by Subsidiaries

Capital Trust Pass-through Securities Units of \$735 (U.S. \$500) were issued by subsidiaries of Manulife Financial in January 1997, maturing February 1, 2027. Using exchange rates at the date of issue, net proceeds from the issue were \$672.

Each unit consists of one 8.25% Trust Preferred Security, issued by the trust subsidiary, and one 0.125% preferred purchase contract, issued by Manufacturers Investment Corporation ("MIC"). The trust subsidiary's only asset is an investment in notes issued by MIC. Holders of each purchase contract may be required to purchase 20 non-cumulative perpetual preferred shares, Series A of MIC, at U.S. \$50 per share. Holders may satisfy this

purchase by delivering the Trust Preferred Securities to MIC in exchange for the perpetual preferred shares.

The Securities Units were issued as a private placement under Rule 144A of the Securities Act (United States).

From the Company's perspective, the issue is equivalent to a combination of 8.25% subordinated debt maturing February 1, 2027, and an option exercisable by the Company, requiring contract holders to purchase an equivalent amount of perpetual preferred stock in MIC. The securities form part of the Company's regulatory capital.

• NOTE 8 Demutualization

Manufacturers Life was organized as a mutual life insurance company until September 23, 1999. On that date, Manufacturers Life converted to a stock life insurance company with common shares following approval of its plan to demutualize by policyholders and the Minister of Finance (Canada). Manulife Financial Corporation ("Manulife Financial," the "Company") was incorporated on April 26, 1999 under the Insurance Companies Act (Canada) and on September 23, 1999, became an insurance holding company owning all of the outstanding shares of Manufacturers Life. To effect the conversion, the Company issued a total of 501 million common shares, of which 38 million were issued to certain underwriters at \$18.00 per share and 100 million common shares were sold in a secondary offering by a custodian on behalf of certain policyholders who elected, or were otherwise required, to sell their common shares pursuant to the Plan of Demutualization. The remaining 363 million common shares were retained by policyholders and given a

total nominal value of one dollar in the Company's records. Proceeds from the shares issued to the underwriters amounted to \$694 and were used to fund payments by Manufacturers Life, in lieu of common shares, to certain policyholders in exchange for their ownership rights. All costs of services provided by outside vendors in respect of the conversion, amounting to \$31 net of taxes, were treated as a capital transaction and, upon demutualization, were deducted from the surplus of Manufacturers Life. All costs of the secondary offering, amounting to \$58 net of taxes, were treated as a capital transaction and deducted from the stated capital of the Company. All costs were paid from the general fund of the Company.

The assets, liabilities, equity and results of operations of Manufacturers Life have been presented in the consolidated financial statements of Manulife Financial Corporation on a continuity of interest basis.

• NOTE 9 Share Capital

The authorized capital of the Company consists of:

- a) an unlimited number of common shares without nominal or par value; and
- b) an unlimited number of Class A and Class B preferred shares without nominal or par value, issuable in series.

On October 7, 1999, the Company announced the establishment of a normal course issuer bid program on The Toronto Stock Exchange (the "Exchange") authorizing the Company to purchase up to 25 million common shares, representing approximately 5% of common shares issued and outstanding at the time. The normal course issuer bid, accepted by the Exchange, commenced on October 12, 1999 and will expire on October 11, 2000 unless the maximum number of shares is purchased before then or the Company provides notice of early termination. Transactions will be executed on the Exchange at the prevailing market price in amounts and at times determined by the Company. Any shares purchased as part of the bid will be cancelled.

In 1999, the Company purchased and subsequently cancelled 7 million of its common shares at a total cost of \$128. Common shares outstanding were reduced by \$8 and retained earnings were reduced by \$120.

As at December 31, 1999, the Company had 494 million common shares issued and outstanding.

Common shares	Number of shares (in millions)	Amount
Issued in public offering (note 8)	38	\$ 694
Less: issue costs, net of taxes (note 8)		(58)
		\$ 636
Issued to policyholders (note 8)	463	–
Normal course issuer bid – purchased for cancellation	(7)	(8)
	494	\$ 628

• NOTE 10 Earnings Per Share

Basic earnings per share for the period from September 24, 1999 to December 31, 1999 was \$0.53, calculated using net income attributable to shareholders of \$267 and the weighted average of the number of shares outstanding for that period of 499 million. Adjusted basic earnings per share for the year ended December 31, 1999 was \$1.75. This was derived by

using net income attributable to shareholders after demutualization plus net income attributable to mutual operations prior to demutualization and the weighted average of the number of common shares outstanding for the year ended December 31, 1999 of 501 million, assuming that common shares issued to policyholders were outstanding at the beginning of the year.

• NOTE 11 Investment in Manulife Century Life Insurance Company

In April 1999, the Company entered the Japanese life insurance market through the establishment of a new life insurance company, Manulife Century Life Insurance Company ("Manulife Century Life"), with a local company, Daihyaku Mutual Life Insurance Company of Japan ("Daihyaku Mutual").

To establish Manulife Century Life, in March 1999, the Company and Daihyaku Mutual each contributed Yen 40 billion (\$515) in cash to be used for operating capital purposes and to acquire, for Yen 40 billion (\$515), the business origination capacity of Daihyaku Mutual's 6,000-person sales force, its operations infrastructure, including tangible and intangible assets, material contracts and goodwill, and its business rights to sell new policies. While the Company and Daihyaku Mutual each initially own 50% of the equity of Manulife Century Life, the Company owns 74.6% of the voting shares and controls the Board of Directors.

The total consideration to be paid by Manulife Century Life to Daihyaku Mutual for the business infrastructure acquired can effectively range from

Yen 15 billion to Yen 100 billion. In addition, Manulife Financial's equity interest in Manulife Century Life may increase. The total consideration paid and ultimate equity interest are collectively dependent on Manulife Century Life's financial performance over the 15-year period following closing. On March 31, 1999, the Company recorded an additional Yen 15 billion (\$190) in goodwill and non-controlling interest in subsidiaries with respect to potential additional payments following closing. Manulife Century Life also initially provided Yen 40 billion (\$515) of financial reinsurance to Daihyaku Mutual on its existing inforce life insurance policies.

This transaction has been accounted for as a purchase and accordingly, the assets acquired by Manulife Century Life have been recorded at their estimated fair values of \$2 at the date of acquisition. The excess of the purchase price over the fair value of the assets acquired was recorded as goodwill (included in Miscellaneous, Other assets) and is being amortized on a straight-line basis over 20 years.

• NOTE 12 | Pensions and Other Post-Employment Benefits

The Company maintains a number of pension and benefit plans for its eligible employees and agents. Information about the Company's benefit plans, in aggregate, is as follows:

	Pension benefits		Other employee benefits	
	1999	1998	1999	1998
For the years ended December 31				
Change in benefit obligation:				
Balance, January 1	\$ 612	\$ 683	\$ 107	\$ 91
Service cost	14	15	6	5
Interest cost	37	35	7	7
Plan participants' contributions	1	2	—	—
Amendments	6	9	—	—
Actuarial loss (gain)	(33)	(20)	9	4
Benefits paid	(42)	(53)	(2)	(2)
Liabilities settled through conversion	—	(68)	—	—
Currency	(6)	9	(13)	2
Balance, December 31	\$ 589	\$ 612	\$ 114	\$ 107
Change in plan assets:				
Fair value of plan assets, January 1	\$ 647	\$ 727	\$ —	\$ —
Actual return on plan assets	68	27	—	—
Employer contribution	—	—	2	2
Plan participants' contributions	1	2	—	—
Benefits paid	(42)	(53)	(2)	(2)
Conversion value paid	—	(65)	—	—
Currency	(8)	9	—	—
Fair value of assets, December 31	\$ 666	\$ 647	\$ —	\$ —

	Pension benefits		Other employee benefits	
	1999	1998	1999	1998
As at December 31				
Funded status, end of year	\$ 77	\$ 35	\$ (114)	\$ (107)
Unrecognized net actuarial gain	(70)	(32)	(59)	(62)
Unrecognized initial transition gain	(17)	(2)	—	—
Unrecognized prior service cost	15	11	—	—
Prepaid (accrued) pension asset (liability)	\$ 5	\$ 12	\$ (173)	\$ (169)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit-cost	\$ 121	\$ 123	\$ —	\$ —
Accrued benefit liability	(116)	(111)	(173)	(169)
Prepaid (accrued) pension asset (liability)	\$ 5	\$ 12	\$ (173)	\$ (169)

Components of the net benefit expense are as follows:

	Pension benefits		Other employee benefits	
	1999	1998	1999	1998
For the years ended December 31				
Defined benefit service cost	\$ 14	\$ 15	\$ 6	\$ 5
Defined contribution service cost	16	10	—	—
Interest cost	37	35	7	7
Expected return on plan assets	(42)	(42)	—	—
Net amortizations and deferrals	2	(1)	(4)	(5)
Net benefit expense	\$ 27	\$ 17	\$ 9	\$ 7

	Pension benefits	
	1999	1998
For the years ended December 31		
Weighted-average assumptions:		
Discount rate	7.3%	6.3%
Expected return on plan assets	8.3%	7.5%
Rate of compensation increase	3.4%	3.4%

Assumed health care cost trends have a significant effect on the amounts reported for the health care plan. The impact of a 100 basis-point change in assumed health care cost trend rates would be as follows:

	100 basis-point increase	100 basis-point decrease
Effect on total of service and interest costs	3	(2)
Effect on post-employment benefit obligation	16	(14)

• NOTE 13 | Commitments and Contingencies

a) Legal proceedings

Over the past several years, lawsuits, including class actions, were filed against a number of life insurance companies operating in Canada and the United States related to life insurance pricing and sales practices, particularly the sale of life insurance policies on a "vanishing premium" or

"premium offset" basis. Life insurance policies with premium offset features were designed in such a way that policy dividends would eventually offset premiums and make it possible for the policyholder to stop paying out-of-pocket premiums within a specified period of time. However, due to significant declines in interest rates, these policies could not generate enough dividends

and paid-up additional insurance or interest to cover future premiums. Lawsuits relating to sales of life insurance policies whose values were sensitive to changes in interest or dividend crediting rates or which were sold using the premium offset concept have typically included claims that such sales involved misrepresentations or omissions regarding the cash value of the policies or the premiums necessary to "vanish" future premiums. Certain of these lawsuits have resulted in substantial settlements or jury awards against other companies.

The Company was a named defendant in similar "vanishing premium" cases, including four class actions in Canada. In Canada, two class action suits were resolved by a settlement agreement that was approved by the court in Ontario on November 18, 1998 and the court in British Columbia on December 18, 1998. The estimated cost of the settlement agreement is \$72 for class relief and \$19 for benefits paid through a policy review process and for administration of the settlement. The class relief is provided by the Company's Valued Customer Program ("VCP"). Delivery of the VCP for policies included in the settlement will be completed in the second quarter of 2000. Final administration of the settlement will be completed before the end of 2000.

In the United States, there have been a number of individual lawsuits and class actions filed against the Company making claims about sales practices and vanishing premiums. Ten of the class actions were consolidated in Federal District Court for the Southern District of California by the Multi-District Litigation Panel. An agreement to settle the consolidated suits was signed on July 8, 1998 and received court approval on December 21, 1998. The total present value of the settlement was estimated at time of settlement to be U.S. \$500. Of this, U.S. \$450 will be distributed to approximately 161,000 class members through dividends and interest crediting over the life of the block of business. Approximately U.S. \$250 will have been distributed to class members in the form of dividends and interest between 1995 (when enhancements were first implemented and which have been credited as part of the settlement) and 2005, while U.S. \$200 is projected to be paid out beginning in late 2005 and continuing for the life of the block of business. The remaining U.S. \$50 is the amount funding a capped Claim Review Fund. The Claim Review Fund will be distributed by mid-2000 to class members who participated in the settlement's claim review process. All existing known U.S. class actions concerning vanishing premiums and other illustration practices have now been settled.

The estimated costs of the Canadian and U.S. class action settlements are within provisions already made by the Company to address such costs. Management believes that these provisions are also adequate to address the remaining class actions and individual actions, including actions that may result from policyholders who have opted out of class settlement. However, there can be no assurance that these legal proceedings or any further litigation relating to life insurance pricing and sales practices will not have a material adverse effect on the Company's business, financial condition or results of operations.

The Company is also subject to legal actions arising in the ordinary course of business. These legal actions are not expected to have a material adverse effect on the consolidated financial position of the Company.

b) Investment commitments

In the normal course of business, various investment commitments are outstanding which are not reflected in the consolidated financial statements. There were \$193 of outstanding investment commitments at December 31, 1999, of which \$44 mature in 30 days, \$125 mature in 31 to 365 days and \$24 mature in 2001 or later. There were \$148 of outstanding investment commitments at December 31, 1998, of which \$51 matured in 30 days, \$89 matured in 31 to 365 days and \$8 mature in 2000 or later.

c) Letters of credit

The Company issues letters of credit in the normal course of business. At December 31, 1999, letters of credit in the amount of \$887, including \$13 against which assets have been pledged, are outstanding.

d) Pledged assets

In the normal course of business, certain of Manulife Financial's subsidiaries pledge their assets as security for liabilities incurred. The amounts pledged were as follows:

As at December 31	1999		1998	
	Bonds	Other	Bonds	Other
In respect of:				
Securities lent	\$ 1,074	\$ —	\$ 664	\$ —
Letters of credit	13	—	18	—
Derivatives	—	3	—	9
Regulatory requirements	35	—	33	—
Total	\$ 1,122	\$ 3	\$ 715	\$ 9

e) Capital requirements

Dividends and capital distributions are restricted under the Insurance Companies Act (Canada). The ICA requires Canadian insurance companies to maintain at all times minimum levels of capital (which principally includes common shareholders' equity [including retained earnings], non-cumulative perpetual preferred shares, subordinated debt and the participating account) calculated in accordance with the Minimum Continuing Capital and Surplus Requirements. In addition to the requirements under Canadian law, the Company must also maintain minimum levels of capital for its foreign subsidiaries. Such amounts of capital are based on the local statutory accounting basis in each jurisdiction. The most significant of these are the Risk Based Capital requirements for the Company's United States insurance subsidiaries. The Company maintains capital well in excess of the minimum required in all foreign jurisdictions in which the Company does business.

There are additional restrictions on distributions in foreign jurisdictions in relation to shareholder dividends. In the United States, regulatory approval is required if a shareholder dividend distribution from a United States subsidiary company to the parent company would exceed that subsidiary company's earned surplus. Regulatory approval is also required if the distribution (together with other distributions during the previous year) exceeds the greater of the subsidiary's statutory net operating income for the previous year or 10% of its surplus determined at the end of the previous year. The determination must be made in accordance with statutory accounting principles. In 1999, the maximum amount of shareholder dividends transferable from a United States subsidiary to the parent company without permission was U.S. \$61 (1998 — U.S. \$136).

f) Participating business

In some territories where the Company maintains participating accounts, there are regulatory restrictions on the amounts of profit that can be transferred to shareholders. Where applicable, these restrictions generally take the form of a fixed percentage of the policyholder dividends. For participating business operated as separate "closed blocks," transfers are governed by the terms of Manufacturers Life's Plan of Demutualization.

g) Uncertainty due to the Year 2000 risk

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

• NOTE 14 Fair Value of Financial Instruments

Financial instruments refer to both on- and off-balance sheet instruments and may be assets or liabilities. They are contracts that ultimately give rise to a right for one party to receive an asset and an obligation for another party to deliver an asset. Fair values are management's best estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties and are generally calculated based on the characteristics of the instrument and the current economic and competitive environment. These calculations are subjective in nature, involve uncertainties and matters of significant judgement and do not include any tax impact.

Both the fair values and the basis for determining the fair value of invested assets, actuarial liabilities, borrowed funds, subordinated debt and derivative financial instruments are disclosed in notes 3, 4, 6 and 15, respectively.

The fair values of accrued investment income, outstanding premiums, miscellaneous other assets, policy benefits in the course of settlement, provision for unreported claims, policyholder amounts on deposit and other liabilities approximate their carrying values, due to their short-term nature.

The fair value of banking deposits is estimated at \$329 at December 31, 1999 (1998 – \$266) compared to a carrying value of \$333 at December 31, 1999 (1998 – \$264). The fair value of these financial instruments is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with similar terms and conditions.

• NOTE 15 Derivative Financial Instruments

Derivative financial instruments are financial contracts, the values of which are derived from underlying assets or interest or foreign exchange rates.

In the ordinary course of business, the Company enters into primarily over-the-counter contracts for asset/liability management purposes. Derivatives such as foreign exchange contracts, interest rate and cross currency swaps, forward rate agreements and equity options are used to manage exposures to interest rate, foreign currency and equity fluctuations in order to ensure a consistent stream of earnings.

Interest rate and foreign exchange swaps are contractual agreements between the Company and a third party to exchange a series of cash flows. For interest rate swaps, counterparties generally exchange fixed and floating interest rate payments based on a notional value in a single currency. For foreign exchange swaps, fixed interest payments and notional amounts are exchanged in different currencies. Notional amount represents the amount to which a rate or price is applied in order to calculate the exchange of cash

flows. The notional principal amounts are not included in the Consolidated Balance Sheets.

Replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

Credit risk equivalent is the sum of replacement cost and the potential future credit exposure. The potential future credit exposure represents the potential for future changes in value based upon a formula prescribed by OSFI.

Risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

Fair value is summarized by derivative type and represents the net unrealized gain or loss, accrued interest receivable or payable, and premiums paid or received.

The Company has the following amounts outstanding:

As at December 31	Remaining term to maturity (notional amounts)				Fair value			Credit risk equivalent	Risk-weighted amount
	Under 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Net		
1999									
Interest rate contracts:									
Swap contracts	\$ 263	\$ 1,328	\$ 1,527	\$ 3,118	\$ 39	\$ (35)	\$ 4	\$ 69	\$ 22
Futures contracts	165	—	—	165	—	—	—	—	—
Options written	7	—	31	38	—	—	—	—	—
Sub-total	\$ 435	\$ 1,328	\$ 1,558	\$ 3,321	\$ 39	\$ (35)	\$ 4	\$ 69	\$ 22
Foreign exchange:									
Swap contracts	—	1,034	480	1,514	64	(33)	31	152	34
Forward contracts	2,052	—	—	2,052	55	(4)	51	75	16
Equity contracts	171	13	—	184	20	—	20	28	7
Total	\$ 2,658	\$ 2,375	\$ 2,038	\$ 7,071	\$ 178	\$ (72)	\$ 106	\$ 324	\$ 79
1998									
Interest rate contracts:									
Swap contracts	\$ 383	\$ 1,846	\$ 726	\$ 2,955	\$ 44	\$ (15)	\$ 29	\$ 63	\$ 19
Futures contracts	206	37	—	243	—	—	—	—	—
Options written	—	—	33	33	—	(1)	(1)	—	—
Sub-total	\$ 589	\$ 1,883	\$ 759	\$ 3,231	\$ 44	\$ (16)	\$ 28	\$ 63	\$ 19
Foreign exchange:									
Swap contracts	22	528	460	1,010	45	(85)	(40)	106	24
Forward contracts	1,920	—	—	1,920	10	(2)	8	29	6
Equity contracts	174	159	—	333	6	(16)	(10)	23	8
Total	\$ 2,705	\$ 2,570	\$ 1,219	\$ 6,494	\$ 105	\$ (119)	\$ (14)	\$ 221	\$ 57

• NOTE 16 | Segmented Information

The Company provides a wide range of financial products and services, including individual life insurance, group life and health insurance, pension products, annuities and mutual funds to individual and group customers in Canada, the United States and Asia. The Company also offers reinsurance services, primarily life and accident and health reinsurance, and provides investment management services with respect to the Company's general fund assets, segregated fund assets and mutual funds and, in Canada, to institutional customers.

The Company's business segments include the Canadian, U.S., Asian and Reinsurance divisions. Each division has profit and loss responsibility

and develops products, services and distribution strategies based on the profile of its business and the needs of its market.

The accounting policies of the segments are the same as those described in note 1, Nature of operations and significant accounting policies.

The results of the Company's business segments differ from geographic segmentation primarily as a consequence of segmenting the results of the Company's Reinsurance Division into the different geographic segments to which its business pertains.

By segment

For the year ended December 31, 1999	Canadian Division	U.S. Division	Asian Division	Reinsurance Division	Other	Total
Revenue						
Premium income						
Individual life and health	\$ 679	\$ 1,644	\$ 1,338	\$ —	\$ —	\$ 3,661
Group life and health	1,737	59	93	—	2	1,891
Reinsurance	—	—	—	816	—	816
Individual annuities	444	1,224	—	—	—	1,668
Group pensions	368	166	102	—	—	636
Total premium income	\$ 3,228	\$ 3,093	\$ 1,533	\$ 816	\$ 2	\$ 8,672
Investment income	1,696	1,888	310	169	313	4,376
Other revenue	173	678	69	11	84	1,015
Total revenue	\$ 5,097	\$ 5,659	\$ 1,912	\$ 996	\$ 399	\$ 14,063
Interest expense	\$ 35	\$ 42	\$ 35	\$ 2	\$ 65	\$ 179
Net income before tax	\$ 299	\$ 561	\$ 127	\$ 145	\$ 36	\$ 1,168
Income taxes	(63)	(196)	12	(40)	(15)	(302)
Net income	\$ 236	\$ 365	\$ 139	\$ 105	\$ 21	\$ 866
Amortization of realized and unrealized gains	\$ 211	\$ 347	\$ 51	\$ 14	\$ 164	\$ 787
Segregated fund deposits	\$ 1,347	\$ 9,031	\$ 331	\$ —	\$ —	\$ 10,709
As at December 31, 1999						
Actuarial liabilities	\$ 16,441	\$ 19,310	\$ 3,086	\$ 775	\$ 136	\$ 39,748
Funds under management						
General fund	\$ 20,697	\$ 23,648	\$ 5,763	\$ 2,794	\$ 3,806	\$ 56,708
Segregated funds	8,341	39,389	1,325	—	—	49,055
Mutual funds	—	—	164	—	1,477	1,641
Other managed funds	—	—	—	—	4,732	4,732

By geographic location

For the year ended December 31, 1999	Canada	United States	Asia	Other	Total
Revenue					
Premium income					
Individual life and health	\$ 774	\$ 1,891	\$ 1,341	\$ 229	\$ 4,235
Group life and health	1,761	219	94	59	2,133
Individual annuities	444	1,224	—	—	1,668
Group pensions	368	166	102	—	636
Total premium income	\$ 3,347	\$ 3,500	\$ 1,537	\$ 288	\$ 8,672
Investment income	2,023	1,977	313	63	4,376
Other revenue	198	684	69	64	1,015
Total revenue	\$ 5,568	\$ 6,161	\$ 1,919	\$ 415	\$ 14,063

By segment

For the year ended December 31, 1998	Canadian Division	U.S. Division	Asian Division	Reinsurance Division	Other	Total
Revenue						
Premium income						
Individual life and health	\$ 647	\$ 1,552	\$ 717	\$ —	\$ —	\$ 2,916
Group life and health	929	57	43	—	8	1,037
Reinsurance	—	—	—	749	—	749
Individual annuities	334	35	—	—	—	369
Group pensions	330	170	125	—	—	625
Total premium income	\$ 2,240	\$ 1,814	\$ 885	\$ 749	\$ 8	\$ 5,696
Investment income	1,668	1,888	212	151	204	4,123
Other revenue	143	518	47	8	76	792
Total revenue	\$ 4,051	\$ 4,220	\$ 1,144	\$ 908	\$ 288	\$ 10,611
Interest expense	\$ 36	\$ 43	\$ 34	\$ 2	\$ 43	\$ 158
Net income before tax	\$ 318	\$ 536	\$ 88	\$ 31	\$ (22)	\$ 951
Income taxes	(83)	(185)	(8)	(1)	36	(241)
Net income	\$ 235	\$ 351	\$ 80	\$ 30	\$ 14	\$ 710
Amortization of realized and unrealized gains	\$ 214	\$ 273	\$ 25	\$ 6	\$ 131	\$ 649
Segregated fund deposits	\$ 1,730	\$ 6,837	\$ 279	\$ —	\$ —	\$ 8,846
As at December 31, 1998						
Actuarial liabilities	\$ 15,804	\$ 19,711	\$ 2,387	\$ 727	\$ 109	\$ 38,738
Funds under management						
General fund	\$ 20,203	\$ 23,879	\$ 3,577	\$ 2,770	\$ 2,673	\$ 53,102
Segregated funds	6,931	30,224	1,045	—	—	38,200
Mutual funds	—	—	118	—	1,590	1,708
Other managed funds	—	—	—	—	3,680	3,680

By geographic location

For the year ended December 31, 1998	Canada	United States	Asia	Other	Total
Revenue					
Premium income					
Individual life and health	\$ 678	\$ 1,776	\$ 723	\$ 155	\$ 3,332
Group life and health	950	303	44	73	1,370
Individual annuities	334	35	—	—	369
Group pensions	330	170	125	—	625
Total premium income	\$ 2,292	\$ 2,284	\$ 892	\$ 228	\$ 5,696
Investment income	1,831	2,020	212	60	4,123
Other revenue	178	516	47	51	792
Total revenue	\$ 4,301	\$ 4,820	\$ 1,151	\$ 339	\$ 10,611

• NOTE 17 Material Differences Between Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements of the Company are presented in accordance with Canadian GAAP. Canadian GAAP differs in certain material

respects from accounting principles generally accepted in the United States ("U.S. GAAP"). The following is a summary of such material differences.

a) Reconciliation of Canadian GAAP net income and equity to U.S. GAAP net income, comprehensive income and equity

For the years ended December 31	Net income		Equity	
	1999	1998	1999	1998
Net income and equity determined in accordance with Canadian GAAP	\$ 866	\$ 710	\$ 6,454	\$ 6,005
Bonds	(414)	72	1,026	1,405
Mortgages	59	65	(113)	(178)
Stocks	(272)	(142)	247	608
Real estate	(23)	(27)	(669)	(667)
Actuarial liabilities	(311)	(573)	(3,902)	(3,772)
Deferred acquisition costs	855	425	4,221	3,558
Deferred revenue	(80)	(18)	(172)	(94)
Future income taxes	(15)	(46)	(417)	(396)
Demutualization expenses ⁽¹⁾	(33)	(22)	—	(22)
Other reconciling items	120	72	203	73
Net income and equity determined in accordance with U.S. GAAP	\$ 752	\$ 516	\$ 6,878	\$ 6,520
Foreign currency translation	(208)	243	—	—
Effect of unrealized gains and losses on available-for-sale bonds and stocks:				
Bonds	(2,879)	660	(43)	2,836
Stocks	918	490	2,662	1,744
Actuarial liabilities	1,617	(439)	(507)	(2,124)
Deferred acquisition costs	234	(198)	(155)	(389)
Deferred revenue	(32)	9	(10)	22
Future income taxes on above	198	(76)	(352)	(550)
Comprehensive income and equity determined in accordance with U.S. GAAP	\$ 600	\$ 1,205	\$ 8,473	\$ 8,059

(1) Under U.S. GAAP, demutualization expenses are presented as an extraordinary item in the Consolidated Statements of Operations.

b) Valuation and income recognition differences between Canadian GAAP and U.S. GAAP

	Canadian GAAP	U.S. GAAP
BONDS	Bonds are carried at amortized cost, less an allowance for specific losses. Allowances are provided on a specific bond whenever a decline in the value of the bond is considered to be other than temporary. Realized gains and losses on sale are deferred and brought into income over the lesser of the remaining term to maturity of the security sold or 20 years.	Bonds may be classified as "available for sale," "held to maturity" or "trading" securities. All bonds are classified as "available for sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. A decline in the value of a specific bond that is considered to be other than temporary results in a write-down in the cost basis of the bond and a charge to income in the period of recognition. Realized gains and losses on sale are recognized in income immediately. Unrealized gains and losses are excluded from income and reported net of tax as a separate component of equity.
MORTGAGES	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are deferred and brought into income over the lesser of the remaining term to maturity of the mortgage or loan sold or 20 years.	Mortgages are carried at amortized cost less repayments and an allowance for specific losses. Realized gains and losses are recognized in income immediately.
STOCKS	Stocks are carried at a moving average market basis whereby carrying values are adjusted towards market value at 15% per annum. Specific stocks are written down to fair value if an impairment in the value of the entire stock portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 15% of the unamortized deferred realized gains and losses each year.	Stocks may be classified as "available for sale" or "trading" securities. All stocks are classified as "available for sale" by the Company and are carried at fair value in the Consolidated Balance Sheets. Other than temporary declines in the value of stocks result in a write-down in the cost basis of the stocks and a charge to income in the period of recognition. Realized gains and losses are recognized in income immediately. Unrealized gains and losses are excluded from income and reported net of tax as a separate component of equity.
REAL ESTATE	Real estate is carried at a moving average market basis whereby the carrying values are adjusted towards market value at 10% per annum. Specific properties are written down to market value if an impairment in the value of the entire real estate portfolio (determined net of deferred realized gains) is considered to be other than temporary. Realized gains and losses are deferred and brought into income at the rate of 10% of the unamortized deferred realized gains and losses each year.	Real estate is carried at cost less accumulated depreciation. Specific properties are written down, taking into account discounted cash flows, if an impairment in the value of the property is considered to be other than temporary. Realized gains and losses are recognized in income immediately.

Canadian GAAP		U.S. GAAP
ACTUARIAL LIABILITIES	Actuarial liabilities for all types of policies are calculated using the policy premium method and represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, policyholder dividends, tax (other than income taxes) and expenses on policies in force. Actuarial liabilities are comprised of a best estimate reserve and provisions for adverse deviation. Best estimate reserve assumptions are made for the lifetime of the policies and include assumptions with respect to mortality and morbidity trends, investment returns, rates of policy termination, policyholder dividend payments, operating expenses and certain taxes. To recognize the uncertainty in the assumptions underlying the calculation of best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits, the Appointed Actuary is required to add a margin to each assumption. These margins result in the calculation of provisions for adverse deviation, the impact of which is to increase actuarial liabilities and decrease the income that would otherwise be recognized when products are sold. Assumptions are updated regularly and the effects of any changes in assumptions are recognized in income immediately. The provisions for adverse deviations are recognized in income over the term of the policy as the risk of deviation from estimates declines.	There are three main standards for valuing actuarial liabilities as follows: Statement of Financial Accounting Standards No. 60, "Accounting and Reporting by Insurance Enterprises" ("FAS 60") applies to non-participating insurance, including whole life and term insurance, payout annuities, disability insurance and certain reinsurance contracts. Actuarial liabilities are calculated using a net level premium method and represent the present value of future benefits to be paid to, or on behalf of, policyholders and related expenses, less the present value of future net premiums. The assumptions include expected investment yields, mortality, morbidity, terminations and maintenance expenses. A provision for adverse deviation is also included. The assumptions are based on best estimates of long-term experience at the time of policy issue. The assumptions are not changed for future valuations unless it is determined that future income is no longer adequate to recover the existing Deferred Acquisition Costs ("DAC"), in which case the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. Statement of Financial Accounting Standards No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments" ("FAS 97") applies to universal life type contracts and investment contracts. The actuarial liability for these contracts is equal to the policyholder account value. There is no provision for adverse deviation. If it is determined that future income for universal life type contracts is no longer adequate to recover the existing DAC, the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. Statement of Financial Accounting Standards No. 120, "Accounting and Reporting by Mutual Life Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts" ("FAS 120") applies to participating insurance contracts. The actuarial liability for these contracts is computed using a net level premium method with mortality and interest assumptions consistent with the non-forfeiture assumptions. There is no provision for adverse deviation. The assumptions are not changed unless it is determined that future income is no longer adequate to recover the existing DAC, in which case the DAC is reduced or written off and, to the extent necessary, actuarial liabilities are increased. The actuarial liabilities may not subsequently be reduced if the circumstances causing the strengthening are no longer applicable. In addition, in accordance with Emerging Issues Task Force Topic No. D-41 ("EITF D-41"), U.S. GAAP requires that actuarial liabilities be adjusted to reflect the changes that would have been necessary if the unrealized gains on bonds and stocks had been realized. This adjustment to actuarial liabilities is recognized directly in equity and is not included in income.
DEFERRED ACQUISITION COSTS	All policy acquisition costs are expensed as incurred. The computation of actuarial liabilities takes this into consideration.	Acquisition costs which vary with, and are primarily related to, the production of new business are deferred and recorded as an asset. This DAC asset is amortized into income in proportion to different measures, depending on the policy type. The deferred acquisition costs associated with FAS 60 policies are amortized and charged to income in proportion to premium income recognized. For non-participating limited payment policies, including annuities not classified as investment contracts, the deferred acquisition costs are amortized in proportion to the amount of the expected future benefit payments for payout annuities and in proportion to face amount for insurance contracts. The deferred acquisition costs associated with FAS 97 and FAS 120 policies (i.e. universal life type contracts, investment contracts and participating insurance contracts) are amortized and charged to income in proportion to the estimated gross profit margins expected to be realized over the life of the contracts. Under FAS 97 and FAS 120, the assumptions used to estimate future gross profits change as experience emerges. In addition, EITF D-41 requires that deferred acquisition costs related to FAS 97 and FAS 120 contracts should be adjusted to reflect the changes that would have been necessary if the unrealized gains and losses on available-for-sale bonds and stocks had actually been realized. This adjustment to deferred acquisition costs is recognized directly in equity and is not included in income.
DEFERRED REVENUE	All premium income is recorded as revenue. The anticipated costs of future services are included within the actuarial liabilities.	Under FAS 97, fees assessed to policyholders relating to services that are to be provided in future years are recorded as deferred revenue. Deferred revenue is amortized to income in the same pattern as DAC.

c) Presentation differences between Canadian GAAP and U.S. GAAP

	Canadian GAAP	U.S. GAAP
PREMIUMS	All premium income is reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations.	Under FAS 60 and FAS 120, gross premiums are reported as revenue when due. A partially offsetting increase in actuarial liabilities for the related policies is recorded in the Consolidated Statements of Operations. Premiums collected on FAS 97 contracts are not reported as revenue in the Consolidated Statements of Operations but are recorded as deposits to policyholders' account balances. Fees assessed against policyholders' account balances relating to mortality charges, policy administration and surrender charges are recognized as revenue.
DEATH, MATURITY AND SURRENDER BENEFITS	All death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations.	For FAS 60 and FAS 120 contracts, all death, maturity and surrender benefits are reported in the Consolidated Statements of Operations when incurred. Additionally, to the extent these amounts have previously been provided for in actuarial liabilities, a corresponding release of actuarial liabilities is recorded in the Consolidated Statements of Operations. For universal life type contracts and investment contracts accounted for under FAS 97, benefits incurred in the period in excess of related policyholders' account balances are recorded in the Consolidated Statements of Operations.
CHANGE IN ACTUARIAL LIABILITIES	Interest credited on policyholders' account balances is included in change in actuarial liabilities in the Consolidated Statements of Operations.	Interest required to support FAS 97 contracts is included in actuarial liabilities in the Consolidated Balance Sheets and is classified in general expenses in the Consolidated Statements of Operations.
SEGREGATED FUND ASSETS AND LIABILITIES	Investments held in segregated funds are carried at market value. Segregated funds are managed separately from those of the general fund of the Company and are, therefore, presented in a separate schedule and are not included in the general fund Consolidated Balance Sheets or Consolidated Statements of Operations.	Assets and liabilities are called separate accounts and are presented in summary lines in the Consolidated Balance Sheets. Assets and liabilities are carried at market values and contract values, respectively.
CONSOLIDATED STATEMENTS OF CASH FLOWS	The cash flows from investment contracts, including deferred annuities and group pensions, are disclosed as an operating activity in the Consolidated Statements of Cash Flows.	The cash flows from investment contracts accounted for under FAS 97 are disclosed as a financing activity in the Consolidated Statements of Cash Flows.
REINSURANCE	Reinsurance recoverables relating to ceded life insurance risks and ceded annuity contract risks are recorded as an offset to actuarial liabilities.	Where transfer of risk has occurred, life insurance actuarial liabilities are presented as a gross liability with the reinsured portion included as reinsurance recoverable. Actuarial liabilities related to annuities are also presented on a gross basis with the reinsured portions accounted for as deposits with reinsurers.
EQUITY	To reflect the demutualization of Manufacturers Life, equity is presented on a continuity of interest basis and, as such, surplus is reclassified to retained earnings net of the costs of services provided by outside vendors in respect of demutualization in the Consolidated Balance Sheets as at December 31, 1999. Shares issued to policyholders are recorded at nominal value and shares issued in a treasury offering are recorded at proceeds received net of share issuance costs in the Consolidated Balance Sheets.	Surplus is reclassified to share capital net of share issuance costs. Shares issued in a treasury offering are recorded at proceeds received net of share issuance costs. Costs incurred to effect the demutualization of Manufacturers Life are expensed in the Consolidated Statements of Operations.

d) Condensed consolidated balance sheets, applicable items

The significant valuation, income recognition and presentation differences between Canadian and U.S. GAAP outlined in notes 17 b) and 17 c) would impact the Consolidated Balance Sheets as follows:

As at December 31	1999		1998	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Assets				
Bonds	\$ 30,853	\$ 30,810	\$ 30,691	\$ 33,522
Mortgages	6,867	6,705	7,702	7,479
Stocks	4,832	6,642	4,042	5,171
Real estate	3,179	2,445	2,992	2,281
Other investments	1,180	1,260	499	516
Deferred acquisition costs	—	4,066	—	3,169
Future income taxes	529	—	772	—
Reinsurance deposits and amounts recoverable	—	1,520	—	1,338
Other miscellaneous assets	1,930	1,949	893	925
Liabilities and equity				
Actuarial liabilities	\$ 39,748	\$ 44,187	\$ 38,738	\$ 44,637
Other policy-related benefits	2,688	2,978	2,482	2,775
Future income taxes	—	240	—	174
Deferred realized net gains	2,266	—	2,735	—
Other liabilities	3,152	4,517	1,392	2,482
Non-controlling interest in subsidiaries	750	692	76	113
Surplus	—	—	6,005	6,520
Common shares and retained earnings	6,454	6,878	—	—
Accumulated effect of comprehensive income on equity	—	1,595	—	1,539

e) Condensed consolidated statements of operations, applicable items

The significant valuation, income recognition and presentation differences between Canadian and U.S. GAAP outlined in notes 17 b) and 17 c) would impact the Consolidated Statements of Operations as follows:

For the years ended December 31	1999		1998	
	Canadian GAAP	U.S. GAAP	Canadian GAAP	U.S. GAAP
Revenue				
Premium income	\$ 8,672	\$ 5,479	\$ 5,696	\$ 4,427
Fee income	—	1,283	—	1,076
Investment income	4,376	3,624	4,123	3,545
Realized investment gains	—	146	—	524
Other revenue	1,015	106	792	81
Policy benefits and expenses				
Policyholder payments	\$ 7,346	\$ 4,370	\$ 6,989	\$ 4,502
Change in actuarial liabilities	2,628	2,173	252	1,358
Expenses	2,859	2,931	2,357	2,906
Extraordinary item ⁽¹⁾	\$ —	\$ 33	\$ —	\$ 22
Income taxes	\$ (302)	\$ (317)	\$ (241)	\$ (287)
Net income	\$ 866	\$ 752	\$ 710	\$ 516

(1) Demutualization expenses.

f) Additional information required to be reported under U.S. GAAP

(i) Deferred acquisition costs

Changes in deferred acquisition costs were as follows:

For the years ended December 31	1999	1998
Balance, January 1	\$ 3,169	\$ 2,751
Capitalization	1,060	744
Accretion of interest	265	224
Amortization	(470)	(543)
Effect of net unrealized gains and losses on bonds and stocks	234	(198)
Foreign currency translation adjustment	(192)	191
Balance, December 31	\$ 4,066	\$ 3,169

(ii) Unrealized gains (losses) on bonds and stocks

Net unrealized gains (losses) on bonds and stocks included in equity were as follows:

As at December 31	1999	1998
Gross unrealized gains	\$ 3,814	\$ 5,079
Gross unrealized losses	(1,195)	(499)
Effect on deferred acquisition cost asset	(155)	(389)
Effect on unearned revenue liability	(10)	22
Effect on actuarial liabilities	(507)	(2,124)
Effect on future income taxes	(352)	(550)
Total	\$ 1,595	\$ 1,539

(iii) Fair value of actuarial liabilities of investment contracts

The fair value of actuarial liabilities of investment contracts as at December 31, 1999 was estimated at \$8,042 (1998 – \$8,551).

(iv) Earnings per share

Adjusted basic earnings per share for the year ended December 31, 1999 was \$1.50. This was derived by using net income attributable to shareholders after demutualization plus net income attributable to mutual operations prior to demutualization and the weighted average of the number of common shares outstanding for the year ended December 31, 1999 of 501 million, assuming that common shares issued to policyholders were outstanding at the beginning of the year. Basic earnings per share is not provided, as a reconciliation from Canadian GAAP net income to U.S. GAAP net income is provided only on an annual basis.

g) Newly issued accounting statements

In June 1998, the U.S. Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative and Similar Financial Instruments and for Hedging Activities." This Statement, which is effective for fiscal years beginning on or after June 15, 2000, requires companies to report derivatives on the balance sheet at fair value with changes in fair value recorded in income or equity. Companies must use a current recognition approach to account for derivatives used in hedging strategies, rather than traditional deferral accounting. Additionally, the definition of a derivative instrument is expanded to include certain structured securities currently accounted for as fixed-maturity securities. The Statement does not form part of Canadian GAAP, and therefore would not impact the Company's reported net income calculated on this basis; however, it could impact the Company's reconciliation of Canadian GAAP net income to U.S. GAAP net income and related disclosures. The effect on the Company's U.S. GAAP net income or financial position cannot be determined at this time.

• NOTE 18 | Comparatives

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Supplementary Tables

• **TABLE 1** | Key Performance Measures

(Canadian \$ in millions unless otherwise stated)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Net income	866	710	743	503	481	281	187	85	201	124	222
Net operating income	866	710	624	503	372	281	187	85	201	187	206
Adjusted shareholders' net income	874	710	743	503	481	281	187	85	201	124	222
Capital*	7,771	7,415	6,377	4,859	3,826	3,052	2,771	2,584	2,162	2,174	2,050
Operating return on shareholders' equity (%) ⁽¹⁾	14.0%	12.9%	13.6%	12.4%	11.4%	9.6%	7.0%	3.3%	9.7%	8.9%	10.6%
Operating return on assets (%)	1.58%	1.37%	1.28%	1.08%	0.93%	0.71%	0.51%	0.26%	0.71%	0.75%	0.90%
Capital* as a percent of liabilities	16.1%	16.2%	14.4%	11.5%	10.6%	8.2%	7.8%	8.0%	7.6%	9.0%	9.4%

*Capital includes: Total equity, Subordinated debt and Trust preferred securities issued by subsidiaries

(1) Previously reported as operating return on surplus

• **TABLE 2** | Summary Consolidated Balance Sheets

As at December 31 (Canadian \$ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Assets											
Bonds	30,853	30,691	28,662	25,627	21,259	18,452	16,763	14,805	12,382	10,816	10,737
Mortgages	6,867	7,702	7,809	8,106	6,917	8,555	9,368	9,565	9,052	7,799	6,718
Stocks	4,832	4,042	3,529	2,796	2,592	2,954	2,684	2,260	2,249	1,767	1,702
Real estate	3,179	2,992	2,806	3,044	2,888	3,350	3,395	3,275	2,873	2,602	2,214
Policy loans	3,207	3,137	2,663	2,354	1,973	1,856	1,651	1,425	1,187	1,082	1,003
Cash and short-term investments	3,047	1,329	1,842	2,600	1,792	2,683	2,447	1,554	1,724	1,198	542
Other investments	1,180	499	479	292	173	209	368	557	571	332	288
Total invested assets	53,165	50,392	47,790	44,819	37,594	38,059	36,676	33,441	30,038	25,596	23,204
Other assets	3,543	2,710	2,733	2,424	2,268	2,168	1,818	1,459	711	656	574
Total assets	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778
Liabilities											
Actuarial liabilities	39,748	38,738	37,227	36,248	31,257	31,296	29,028	26,666	23,219	20,777	18,383
Other liabilities	8,439	6,873	6,865	6,088	4,759	5,863	6,678	5,635	5,351	3,290	3,343
Subordinated debt	582	627	581	566	341	—	—	—	—	—	—
Non-controlling interest in subsidiaries	750	76	54	48	20	16	17	15	17	11	2
Trust preferred securities issued by subsidiaries	735	783	728	—	—	—	—	—	—	—	—
Total equity⁽¹⁾	6,454	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050
Total liabilities and surplus	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778

(1) Previously reported as surplus

• **TABLE 3** | Summary Consolidated Statements of Equity⁽¹⁾

For the years ended December 31 (Canadian \$ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Balance, January 1	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050	1,828
Net income for the year	866	710	743	503	481	281	187	85	201	124	222
Adjustment to equity ⁽¹⁾	—	—	(48)	321	—	—	—	337	(213)	—	—
Conversion costs	(31)	—	—	—	—	—	—	—	—	—	—
Cash distributions to policyholders	(694)	—	—	—	—	—	—	—	—	—	—
Issue of common shares	694	—	—	—	—	—	—	—	—	—	—
Initial public offering costs	(58)	—	—	—	—	—	—	—	—	—	—
Purchase & cancellation of common shares	(128)	—	—	—	—	—	—	—	—	—	—
Change in Currency Translation Account	(200)	227	80	(16)	(48)	—	—	—	—	—	—
Balance, December 31	6,454	6,005	5,068	4,293	3,485	3,052	2,771	2,584	2,162	2,174	2,050

(1) Previously reported as surplus

Certain amounts have been restated to conform with the 1999 presentation.

• **TABLE 4 Summary Consolidated Statements of Operations**

For the years ended December 31 (Canadian \$ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Revenue											
Premium income	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521
Investment income	4,376	4,123	4,010	3,734	3,231	2,882	2,853	2,744	2,635	2,447	2,325
Other revenue	1,015	792	574	447	212	218	151	102	106	102	105
Total revenue	14,063	10,611	10,206	9,875	8,636	8,088	7,460	6,950	6,741	6,482	5,951
Policy benefits and expenses											
Payments to policyholders and beneficiaries	6,608	6,385	6,508	5,883	5,132	4,678	3,764	3,239	2,722	2,665	2,488
Increase in actuarial liabilities	2,628	252	169	873	1,089	1,214	1,788	2,004	2,378	2,272	1,938
Policyholder dividends and experience rating refunds	738	604	508	471	356	312	267	247	212	192	181
General expenses and commissions	2,710	2,118	1,868	1,693	1,220	1,204	1,056	996	910	893	885
Interest expense	179	158	156	161	203	243	281	297	223	183	185
Premium taxes	84	74	83	72	64	57	50	52	38	37	20
Non-controlling interest in subsidiaries	(114)	7	11	6	2	1	2	(3)	—	—	—
Trust preferred securities issued by subsidiaries	62	62	54	—	—	—	—	—	—	—	—
Total policy benefits and expenses	12,895	9,660	9,357	9,159	8,066	7,709	7,210	6,832	6,483	6,242	5,697
Income before preferred share dividends, unusual items and income taxes	1,168	951	849	716	570	379	250	118	258	240	254
Preferred share dividends	—	—	—	—	—	—	—	(16)	(16)	(16)	(16)
Unusual items	—	—	176	—	126	—	—	—	—	(63)	16
Income taxes	(302)	(241)	(282)	(213)	(215)	(98)	(63)	(17)	(41)	(37)	(32)
Net income	866	710	743	503	481	281	187	85	201	124	222
Net loss attributed to:											
Participating policyholders (after demutualization)	(8)	—	—	—	—	—	—	—	—	—	—
Net income attributed to:											
Mutual operations (prior to demutualization)	607	710	743	503	481	281	187	85	201	124	222
Shareholders (after demutualization)	267	—	—	—	—	—	—	—	—	—	—
Adjusted shareholders' net income	874	710	743	503	481	281	187	85	201	124	222
Net income	866	710	743	503	481	281	187	85	201	124	222

• **TABLE 5 Funds under Management**

As at December 31 (Canadian \$ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Funds under management by category											
General fund	56,708	53,102	50,523	47,243	39,862	40,227	38,494	34,900	30,749	26,252	23,778
Segregated funds	49,055	38,200	27,018	18,553	5,532	5,445	4,012	2,734	2,270	1,905	1,901
Mutual funds	1,641	1,708	2,125	2,782	934	746	563	441	477	—	—
Securitized funds	—	—	—	—	—	4,622	4,477	3,696	2,435	—	—
Other managed funds	4,732	3,680	2,652	2,944	330	279	—	—	—	—	—
Total	112,136	96,690	82,318	71,522	46,658	51,319	47,546	41,771	35,931	28,157	25,679

Certain amounts have been restated to conform with the 1999 presentation.

TABLE 6 Premiums and Deposits by Line of Business and Geographic Territory

For the years ended December 31 (Canadian \$ in millions)	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
General fund premiums by line of business											
Individual life and health insurance	3,661	2,916	2,690	2,631	2,354	2,252	2,156	1,948	1,741	1,579	1,402
Group life and health insurance	1,891	1,037	1,068	1,112	735	584	385	347	309	290	257
Individual annuities	1,668	369	440	622	935	1,031	844	774	939	718	771
Group pensions	636	625	627	676	600	567	573	634	680	1,024	801
Reinsurance	816	749	797	653	569	554	498	401	331	322	290
Total	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521
General fund premiums by geographic territory											
Canada	3,347	2,292	2,294	2,549	2,142	1,963	1,548	1,459	1,418	1,084	1,094
United States	3,498	2,276	2,202	2,181	2,152	2,241	2,373	2,161	2,190	2,163	1,835
International	1,825	1,120	1,121	964	806	685	438	367	280	211	167
Reinsurance ⁽¹⁾	—	—	—	—	—	—	—	—	—	322	290
Divested operations	2	8	5	—	93	99	97	117	112	153	135
Total	8,672	5,696	5,622	5,694	5,193	4,988	4,456	4,104	4,000	3,933	3,521
Segregated fund deposits by geographic territory											
Canada	1,347	1,730	1,418	757	323	671	488	204	118	111	102
United States	9,031	6,837	5,376	3,365	931	670	385	214	126	114	84
International	331	279	232	169	113	78	57	37	32	30	23
Divested operations	—	—	—	—	37	171	162	161	168	249	152
Total	10,709	8,846	7,026	4,291	1,404	1,590	1,092	616	444	504	361

(1) Not split geographically prior to 1991.

TABLE 7 Quarterly Information – Summary Statements of Operations

For the three months ended (Canadian \$ in millions)	12/31/99	9/30/99	6/30/99	3/31/99	12/31/98	9/30/98	6/30/98	3/31/98
Revenues								
Premium income	2,215	2,110	2,656	1,691	1,579	1,445	1,311	1,361
Investment income	1,311	1,023	1,018	1,024	1,117	955	1,023	1,028
Other revenue	276	261	253	225	212	188	213	179
Total revenue	3,802	3,394	3,927	2,940	2,908	2,588	2,547	2,568
Policy benefits and expenses								
Payments to policyholders and beneficiaries	1,767	1,650	1,640	1,551	1,635	1,562	1,584	1,604
Increase in actuarial liabilities	595	541	1,141	351	167	64	(17)	38
Policyholder dividends and experience rating refunds	209	200	182	147	169	157	158	120
General expenses and commissions	751	722	676	561	605	528	489	496
Interest expense	58	34	46	41	38	39	42	39
Premium taxes	20	23	20	21	15	20	19	20
Non-controlling interest in subsidiaries	18	(67)	(66)	1	7	(3)	2	1
Trust preferred securities issued by subsidiaries	15	14	18	15	17	16	15	14
Total policy benefits and expenses	3,433	3,117	3,657	2,688	2,653	2,383	2,292	2,332
Income before income taxes	369	277	270	252	255	205	255	236
Income taxes	(126)	(53)	(66)	(57)	(56)	(63)	(66)	(56)
Net income	243	224	204	195	199	142	189	180
Net loss attributed to:								
Participating policyholders (after demutualization)	(8)	–	–	–	–	–	–	–
Net income attributed to:								
Mutual operations (prior to demutualization)	–	208	204	195	199	142	189	180
Shareholders (after demutualization)	251	16	–	–	–	–	–	–
Adjusted shareholders' net income	251	224	204	195	199	142	189	180
Net income	243	224	204	195	199	142	189	180
Return on shareholders' equity ⁽¹⁾ (annualized)	15.7%	14.2%	13.1%	12.8%	13.5%	10.1%	14.2%	14.0%
Return on assets (YTD) (annualized)	1.58%	1.51%	1.47%	1.46%	1.37%	1.32%	1.45%	1.43%
Capital as a percent of liabilities	16.1%	16.0%	16.2%	16.6%	16.2%	15.9%	15.4%	15.0%

(1) Previously reported as return on surplus

Certain amounts have been restated to conform with the 1999 presentation.

Subsidiary Listing

(Canadian \$ in millions as at December 31, 1999)	Percentage Ownership	Equity Interest in Subsidiaries	Address	Description of Entity
MANULIFE FINANCIAL CORPORATION			Toronto, Canada	Publicly traded insurance holding company.
The Manufacturers Life Insurance Company	100	\$ 953	Toronto, Canada	Leading Canadian-based financial services company that offers a diverse range of financial protection products and wealth management services.
The Manufacturers Investment Corporation	100	3,625	Bloomfield Hills, Michigan, U.S.A.	Holding company for life insurance and reinsurance business written in the United States.
Manulife Reinsurance Corporation (U.S.A.)	100			
The Manufacturers Life Insurance Company (U.S.A.)	100			
The Manufacturers Life Insurance Company of America	100			
Manulife-Wood Logan Holding Co., Inc.	100			
Manulife Wood Logan, Inc.	100			
The Manufacturers Life Insurance Company of North America	100			
The Manufacturers Life Insurance Company of New York	100			
Manufacturers Securities Services, LLC	100			
Manulife Reinsurance Limited	100			
ManuLife (International) Reinsurance Limited	100	578	Hamilton, Bermuda	Provides financial reinsurance and is the holding company for property and casualty reinsurance business written in countries other than the United States and European nations.
Manulife Management Services Ltd.	100			
Manufacturers P&C Limited	100			
Manufacturers Life Reinsurance Limited	100			
Manulife International Holdings Limited	100	477	Hamilton, Bermuda	Serves as an investment company on behalf of Manulife Financial and as a holding company for Manulife (International) Limited, for business written in Hong Kong.
Manulife (International) Limited	100			
Manulife-Sinochem Life Insurance Co. Ltd.	51			
Manulife Funds Direct (Barbados) Limited	100			
Manulife Funds Direct (Hong Kong) Limited	100			
Manulife Bank of Canada	100	94	Waterloo, Canada	Provides banking services to Canadian Operations.
Manucab Ltd.	100	36	Toronto, Canada	Real estate holding company.
FNA Financial Inc.	100	67	Toronto, Canada	Holding company for property and casualty insurance and investment management subsidiaries.
First North American Insurance Company	100			
Elliott & Page Limited	100			
Seamark Asset Management Ltd.	67.86			
NAL Resources Management Limited	100			
Manulife International Capital Corporation Limited	100	42	Toronto, Canada	A specialized financing corporation and holding company.
Regional Power Inc.	80			
Manulife Data Services Inc.	100	24	Bridgetown, Barbados	Provides data processing services in Barbados.
P.T. Asuransi Jiwa Manulife Indonesia	51	24	Jakarta, Indonesia	Indonesian joint venture life insurance company.
The Manufacturers Life Insurance Co. (Philis.), Inc.	100	33	Manila, Philippines	Operating subsidiary for business written in the Philippines.
Manulife Europe Rückversicherungs-Aktiengesellschaft	100	6	Cologne, Germany	Operating subsidiary for European reinsurance business.
Manulife International Investment Management Limited	100	17	London, England	Investment management company for Manulife Financial's international funds.
994744 Ontario Inc.	100	5	Toronto, Canada	Real estate holding company.
OUB Manulife Pte. Ltd.	50	1	Singapore	Singapore life insurance company.
Manulife Securities International Ltd.	100	0	Waterloo, Canada	Mutual fund dealer for Manulife Financial's Canadian operations.
Chinfon-Manulife Insurance Company Limited	60	4	Ho Chi Minh City, Vietnam	Vietnam life insurance company.
Manulife Century Investments (Alberta) Inc.	100	334	Calgary, Canada	Holding company for life insurance business written in Japan.
Manulife Century Life Insurance Company	74.6			
Total equity interest in subsidiaries		\$ 6,320		

Board of Directors

CORPORATE GOVERNANCE PRACTICES

Manulife Financial Corporation prides itself in adopting leading edge corporate governance policies and practices and believes that such practices are fundamental to a well-run successful company. The Company is committed to continuing the tradition of remaining at the forefront of good governance and to ensuring the highest standards of corporate governance for its shareholders.

BOARD OF DIRECTORS

"Director Since" refers to the year of first election to the Board of The Manufacturers Life Insurance Company ("Manufacturers Life"). The Committees listed are those on which the Directors serve for Manulife Financial Corporation ("the Company"), not including Special Committees.

Arthur R. Sawchuk (Chairman)
Committee: Corporate Governance
& Nominating (Chair)
Director Since: 1993

Dominic D'Alessandro
Director Since: 1994

Kevin E. Benson
Committee: Corporate Governance
& Nominating
Director Since: 1995

William R.C. Blundell
(retired December 31, 1999)
Committee: Corporate Governance
& Nominating
Director Since: 1991

John M. Cassaday
Committee: Management Resources
& Compensation (Vice Chair)
Director Since: 1993

Lino J. Celeste
Committee: Corporate Governance
& Nominating
Director Since: 1994

Gail C.A. Cook-Bennett
Committee: Management Resources
& Compensation
Director Since: 1978

Robert E. Dineen, Jr.
Committee: Corporate Governance
& Nominating
Director Since: 1999

Pierre Y. Ducros
Committee: Management Resources
& Compensation
Director Since: 1999

William A. Farlinger
(retiring at Annual General Meeting 2000)
Committee: Management Resources
& Compensation
Director Since: 1996

Allister P. Graham
Committees: Audit; Conduct Review
Director Since: 1996

Thomas E. Kierans
Committees: Audit (Chair);
Conduct Review (Chair)
Director Since: 1990

Lorna R. Marsden
Committees: Audit; Conduct Review
Director Since: 1995

John D. Richardson
Committees (ex officio): Audit;
Conduct Review
Director Since: 1999

Hugh W. Sloan, Jr.
Committee: Management Resources
& Compensation (Chair)
Director Since: 1985

Michael H. Wilson
Committees: Audit; Conduct Review
Director Since: 1995

EXECUTIVE COMMITTEE

Dominic D'Alessandro
President and
Chief Executive Officer

John D. Richardson
Senior Executive Vice President

Victor S. Apps
Executive Vice President and
General Manager, Asia

Felix Chee
Executive Vice President and
Chief Investment Officer

Richard Coles
Executive Vice President,
Investments

John DesPrez
Executive Vice President,
U.S. Operations

Donald Guloien
Executive Vice President,
Business Development

Geoff Guy
Executive Vice President and
Chief Actuary

Trevor J. Matthews
Executive Vice President,
Canadian Operations

Donald Parker
Executive Vice President and
Chief Information Officer

Peter H. Rubenovitch
Executive Vice President and
Chief Financial Officer

MANAGEMENT COMMITTEE

Includes members of the
Executive Committee plus:

Jim Boyle
Senior Vice President,
Annuities and President,
Manulife North America

Bob Cook
Senior Vice President,
U.S. Insurance

Geoff Crickmay
Senior Vice President,
Individual Life Centre,
Canadian Operations

J. Roy Firth
Senior Vice President,
Wealth Management,
Canadian Operations and
President and Chief Executive
Officer, Elliott & Page Limited

H. Bruce Gordon
Senior Vice President,
Group Benefits,
Canadian Operations

David M. Horman
President and Chief Executive
Officer, Manulife Century Life
Insurance Company

Peter Hutchison
Senior Vice President,
Corporate Taxation

Ted Kilkuskie
Senior Vice President and Chief
Distribution Officer, U.S. Operations

Edward Lau
Senior Vice President and
General Manager, Hong Kong

Beverly S. Margolian
Senior Vice President and Controller

Jim O'Malley
Senior Vice President,
U.S. Group Pensions

Joseph J. Pieiroski
Senior Vice President and
Corporate Secretary

Susan E. Robinson
Senior Vice President,
Human Resources

Dale Scott
Senior Vice President and
General Counsel

Jim Senn
Senior Vice President and General
Manager, Reinsurance Operations

For a full report on Manulife Financial Corporation's corporate governance practices, please refer to the Company's Management Proxy Circular, where you will find the Company's Statement of Corporate Governance Practices, Directors' biographies and Board and Committee attendance information.

International Office Listings

CORPORATE HEADQUARTERS

Manulife Financial Corporation
Tel. (416) 926-3000
200 Bloor Street East
Toronto, ON
Canada M4W 1E5

CANADIAN OPERATIONS

Affinity Markets
Tel. (416) 229-3035
5650 Yonge Street
16th Floor
North York, ON
Canada M2M 4G4

Canadian Group Pensions
Tel. (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

Group Benefits
Tel. (519) 747-7000
380 Weber Street North
P.O. Box 1650
Waterloo, ON
Canada N2J 4V7

Individual Life Centre
Tel. (519) 747-7000
25 Water Street South
P.O. Box 800
Station C
Kitchener, ON
Canada N2G 4Y5

Individual/Wealth Management
Tel. (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

Manulife ONE
Tel. (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

CANADIAN SUBSIDIARIES

Manulife Bank of Canada
Tel. (519) 747-7000
500 King Street North
Delivery Station 203C
Waterloo, ON
Canada N2J 4C6

Manulife Securities International Ltd.
Tel. (519) 747-7000
500 King Street North
Waterloo, ON
Canada N2J 4C6

UNITED STATES OPERATIONS

Boston National Sales and Marketing
Tel. (617) 854-4300
73 Tremont Street
Suite 1300
Boston, MA 02108-3915 U.S.A.

Toronto Office
Tel. (416) 926-0100
200 Bloor Street East, NT-G
Toronto, ON
Canada M4W 1E5

UNITED STATES SUBSIDIARIES

Manulife Wood Logan, Inc.
Tel. (800) 334-4437
680 Washington Boulevard
9th Floor
Stamford, CT 06901-3710 U.S.A.

The Manufacturers Life Insurance Company of New York
Tel. (877) 391-3748
100 Summit Lake Drive
2nd Floor
Vallaha, NY 10595 U.S.A.

The Manufacturers Life Insurance Company of North America
Tel. (800) 344-1029
500 Boylston Street
Suite 400
Boston, MA 02116-3739 U.S.A.

ASIA OPERATIONS

Asia Head Office
Tel. (852) 2510-5888
48/F., Manulife Plaza,
The Lee Gardens,
33 Hysan Avenue,
Causeway Bay,
Hong Kong

Hong Kong Manulife (International) Limited
Tel. (852) 2510-5600
31/F., Manulife Tower
169 Electric Road
North Point
Hong Kong

Manulife Provident Funds Trust Company Limited
Tel. (852) 2510-5600
31/F., Manulife Tower
169 Electric Road
North Point
Hong Kong

Manulife Funds Direct (HK) Limited
Tel. (852) 2510-5888
20/F., Manulife Plaza,
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

INDONESIA

Manulife Indonesia
Tel. (62-21) 230-3223
Wisma Manulife Indonesia
Jl. Pegangsaan Timur No. 1A,
Jakarta 10320
Indonesia

PHILIPPINES

Manulife Philippines
Tel. (63-2) 817-2976
Manulife Centre,
108 Tordesillas corner
Gallardo Sts.,
Salcedo Village, Makati City
Metro Manila,
Philippines

TAIWAN

Manulife Taiwan
Tel. (886-2) 2740-9080
4F., IBM Plaza,
2 Tun Hwa South Road,
Section 1, Taipei,
Taiwan

CHINA

Manulife-Sinochem Life Insurance Co. Ltd.
Tel. (86-21) 5049-2288
21/F., Jin Mao Building,
177 Lu Jia Zui Road,
Pudong, Shanghai 200120
PR China

JAPAN

Manulife Century Life Insurance Company
Tel. (81-424) 898-090
4-34-1 Kokuryo-cho
Chofu-shi, Tokyo
Japan 182-8621

SINGAPORE

OUB Manulife Pte. Ltd.
Tel. (65) 737-1221
491B River Valley Road,
#07-00 Valley Point,
Singapore 248373

VIETNAM

Chinfon-Manulife Insurance Company Limited
Tel: (84-8) 825-7722
12/F., Diamond Plaza
34 Le Duan, Ho Chi Minh City
Vietnam

REINSURANCE OPERATIONS

Manulife Reinsurance
Tel. (416) 926-3507
200 Bloor Street East, NT-8
Toronto, ON
Canada M4W 1E5

INVESTMENT OPERATIONS

Mortgage Operations
Tel. (416) 926-5925 (Canada)
Tel. (416) 926-5840 (U.S.A.)
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

Real Estate
Tel. (416) 926-5500
250 Bloor Street East, 8th Floor
Toronto, ON
Canada M4W 1E5

Securities
Tel. (416) 926-5977
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

INVESTMENT AFFILIATES

Elliott & Page Limited
Tel. (416) 581-8300
Tel. 1-800-363-6647
393 University Avenue
Suite 2100
Toronto, ON
Canada M5G 1E6

Manulife Capital
Tel. (416) 926-5727
200 Bloor Street East, NT-6
Toronto, ON
Canada M4W 1E5

Manulife International Investment Management Limited
Tel. (44-20) 7330-1900
Broad Street House
55 Old Broad Street
London, England
EC2M 1TL

MF Private Capital, Inc.
Tel. (617) 451-5600
45 Milk Street
Suite 600
Boston, MA 02109 U.S.A.

NAL Resources Management Limited
Tel. (403) 294-3600
605 5th Avenue S.W.
Suite 2400
Calgary, AB
Canada T2P 3H5

Regional Power Inc.
Tel. (416) 593-4717
40 University Avenue
Suite 710
Toronto, ON
Canada M5J 1T1

Seamark Asset Management Ltd.
Tel. (902) 423-9367
1801 Hollis Street
Suite 310
Halifax, NS
Canada B3J 3N4

Shareholder Information

MANULIFE FINANCIAL CORPORATION HEAD OFFICE

200 Bloor Street East
Toronto, ON
Canada M4W 1E5
Tel: (416) 926-3000
Fax: (416) 926-5454
Web site: www.manulife.com

ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

Shareholders are invited to attend the Annual and Special Meeting of Manulife Financial Corporation to be held on May 4, 2000 at 10:30 a.m. at Roy Thomson Hall, Toronto, ON, Canada.

STOCK EXCHANGE LISTINGS

Manulife Financial Corporation's common shares are listed on:
The Toronto Stock Exchange (MFC)
New York Stock Exchange (MFC)
The Stock Exchange of
Hong Kong (0945)
Philippine Stock Exchange (MFC)

GENERAL INFORMATION

Requests relating to general information, including media inquiries, may be directed to our Corporate Communications Department.
Tel: (416) 926-5230
Fax: (416) 926-5410
E-mail: corporate_communications@manulife.com

INVESTOR RELATIONS

Institutional investors, brokers, security analysts and other investors requiring financial information may contact our Investor Relations Department or access our Web site at www.manulife.com.
Tel: 1-800-795-9767
Fax: (416) 926-3503
E-mail: investor_relations@manulife.com

TRANSFER AGENT AND REGISTRAR

Information regarding your shareholdings, including changes of address, changes in registration, lost certificates or to eliminate duplicate mailings of shareholder material, may be obtained by contacting our Transfer Agent.

Transfer Agent in Canada

Montreal Trust
151 Front Street West, 8th Floor
Toronto, ON
Canada M5J 2N1
Tel: 1-800-783-9495
Fax: 1-877-713-9291
Local fax: (416) 285-2174
E-mail: manulife@montrealtrust.com

Montreal Trust offices are also available in Montreal, Halifax, Vancouver and Calgary.

Transfer Agent in the United States

American Securities Transfer & Trust Inc.
12039 West Alameda Parkway
Suite Z-2
Lakewood, Colorado, 80228 U.S.A.
Tel: 1-800-795-9767

Transfer Agent in Hong Kong

Central Registration
Hong Kong Limited
Rooms 1901 - 5, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong
Tel: 852-2862-8628

Transfer Agent in the Philippines

The Hong Kong and Shanghai
Banking Corporation Limited
33/F Philippine Stock
Exchange Centre
West Tower Exchange Road
Ortigas Centre, Pasig City,
Philippines
Tel: 632-635-3786

AUDITORS

Ernst & Young LLP
Chartered Accountants
Toronto, Canada

MFC ANNUAL REPORT

This annual report is also available online at www.manulife.com

COMMON SHARE TRADING SUMMARY

(September 24 - December 31, 1999)

	Toronto	New York	Hong Kong	Philippines
High	21.10 ⁽¹⁾	14.38 ⁽²⁾	110.50 ⁽³⁾	570 ⁽⁴⁾
Low	16.95 ⁽¹⁾	10.56 ⁽²⁾	86.25 ⁽³⁾	430 ⁽⁴⁾
Close	18.45 ⁽¹⁾	12.69 ⁽²⁾	95.25 ⁽³⁾	475 ⁽⁴⁾
Average daily trading volume (000)	1,447	354	297	51

(1) Canadian \$

(2) United States \$

(3) Hong Kong \$

(4) Philippine Pesos

COMMON SHARE DIVIDENDS

The Company declared its first quarterly common share dividend on February 17, 2000, in the amount of \$0.10 per share, payable on April 28, 2000 to shareholders of record on March 20, 2000. A direct deposit service is available for shareholders in Canada. To enroll, please contact our Transfer Agent, Montreal Trust.



Manulife Financial

Manulife Financial Corporation

Head Office

200 Bloor Street East
Toronto, ON
Canada M4W 1E5

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Fax: (416) 926-5454
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Investor Relations

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